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GSU
Economic
Forecasting
Project
Newsletter

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MONTHLY PROJECTIONS
FOR DECEMBER

ANOTHER SHARP DROP IN INTEREST RATES AND PRODUCTION SHOULD SOON BEGIN

Our monthly estimates of economic activity suggest that real economic activity may have peaked in November. Nominal GNP may have grown at a sluggish 6% annual rate in December, but such estimates are distorted by unusual and questionable seasonal adjustments. The late Thanksgiving in November caused some of the monthly indicators to be adjusted for unusually short work days (in construction) and little Christmas shopping (retail sales). More meaningful adjustments would have added to December's strength at the expense of November. However, the short time between Thanksgiving and Christmas increased the transactions per day. Some monetary change in the demand for money probably was caused by this accident of the calendar even if the measured change in activity was removed by seasonal adjustment assumptions. By the end of January, our indicators show a distinct decline in economic activity. (The seasonals in January also are distorted by the years of unusually severe winters. Activity is overstated for that month as a result.)

In this latest economic decline, activity is not expected to slump to the previous low point of production, but weakness in construction is expected to lead to less economic activity than originally anticipated.

Because of the holidays and the extensive revision of the GNP data which is scheduled for release on December 23, no commentary by category will be presented in these Projections. An extensive commentary on the revisions will be included in the January Projections. However, we have decided to change our tax assumptions so that disposable income is not impacted until May, when we assume that the tax package will officially alter the withholding tables. This marginally reduces consumption early in 1981, but it substantially alters personal savings during that period.

DEC 23 1980

Quarterly Profile of GNP

	1980-III	1980-VI	1981-I	1981-II	1981-III	1981-IV
Real	0.9	6.7	-2.6	-3.7	5.5	3.9
Price	9.8	10.5	9.7	8.7	8.7	9.5
Nominal	10.8	17.8	7.0	4.6	14.7	13.7

Note: The unusually large estimate of real GNP during the fourth quarter is supported by the index of hours worked, whose November value is 7.4% above third quarter averages at annual rates, and by industrial production, whose November value is 19.5% at annual rates above summer quarter averages.

Monthly Highlights
for December 1980

Payroll employment, +65,000; index of hours worked, -0.1%; household employment, +161,000; unemployment rate, 7.6%; personal income, +0.7%; personal outlays, +0.8%; retail sales, +0.4%; automobile sales, 8.9 million; industrial production, -0.1%; housing starts, -8.0%; housing permits, -8.4%; construction expenditures, +1.1%; business inventories, +0.6%; durable goods orders, +1.3%; orders for nondefense capital goods, +1.4%; CPI, +1.0%, PPI, +0.4%; agricultural prices, -1.5%; merchandise trade balances, (new basis), -$2.02 billion; leading indicators, -0.7%; M1-B, +7.8%; M2, +10.4%.

Monthly Highlights
for January 1981

Payroll employment, -13,000; index of hours worked, -0.2%; household employment, +88,000; unemployment, 7.7%; personal income, +0.3%; personal outlays, +0.7%; retail sales, +0.7%; automobile sales, 9.0 million; industrial production, -0.7%; housing starts, -9.2%; housing permits, -10.3%; construction expenditures, +0.3%; business inventories, +0.8%; durable goods orders, +1.3%; orders for nondefense capital goods, +2.1%; CPI, +1.2%; PPI, +0.9%; agricultural prices, -0.4%; merchandise trade balances, (new basis), -$2.13 billion; leading indicators, -1.1%; M1-B, +5.3%; M2, +10.5%.

12/19/80

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1980	89867	89867	121.9	121.9	96996	96996	7.8	7.8	252.1	252.1
August	90109	90142	123.0	123.0	97006	97006	7.6	7.6	253.6	254.0
September	90296	90384	123.7	123.8	97207	97207	7.5	7.5	254.5	255.4
October	90468	90612	124.0	124.3	97321	97176	7.6	7.6	256.5	257.7
November	90595	90880	124.2	125.1	97407	97396	7.7	7.5	257.9	260.3
December	90683	90945	124.3	125.0	97541	97557	7.8	7.6	259.4	262.4
January 1981	90695	90932	124.2	124.7	97644	97645	7.9	7.7	261.5	264.5
February	90721	90863	124.0	124.4	97824	97705	7.9	7.8	263.7	266.6
March	90753	90775	124.0	124.0	97899	97596	8.0	8.0	265.5	268.5
April	90914	90699	124.3	123.8	98083	97491	7.9	8.2	267.4	270.3
May	91049	90743	124.6	124.0	98255	97559	7.9	8.3	269.0	271.3
June	91391	90832	125.0	124.2	98442	97547	7.9	8.4	271.2	273.2
July	91467	90951	125.1	124.4	98762	97872	7.8	8.4	272.7	275.3
August	91506	91079	125.2	124.8	98848	98035	7.9	8.4	274.4	277.6
September	91617	91242	125.2	125.0	99024	98348	7.9	8.3	276.3	279.5
October	91836	91465	125.5	125.3	99142	98480	7.8	8.3	278.3	281.4

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1980	2.124	2.124	1.315	1.315	86.7	84.1	1.795	1.795	1.708	1.711
August	2.140	2.143	1.329	1.330	79.1	81.9	1.806	1.809	1.727	1.727
September	2.160	2.167	1.339	1.343	84.1	88.8	1.822	1.828	1.738	1.739
October	2.189	2.190	1.360	1.361	88.4	89.4	1.846	1.846	1.758	1.757
November	2.205	2.215	1.370	1.380	83.8	84.3	1.857	1.866	1.773	1.782
December	2.220	2.231	1.379	1.390	80.7	82.6	1.868	1.878	1.787	1.796
January 1981	2.229	2.237	1.389	1.398	99.9	72.5	1.901	1.880	1.801	1.808
February	2.246	2.253	1.398	1.406	95.8	71.7	1.915	1.893	1.819	1.822
March	2.264	2.267	1.408	1.412	86.9	67.1	1.929	1.903	1.842	1.836
April	2.284	2.281	1.421	1.419	87.3	65.8	1.945	1.913	1.858	1.848
May	2.301	2.295	1.433	1.427	85.7	88.4	1.958	1.950	1.872	1.862
June	2.322	2.314	1.449	1.439	84.1	85.6	1.975	1.965	1.891	1.880
July	2.359	2.357	1.458	1.452	98.5	95.3	2.008	2.004	1.910	1.909
August	2.373	2.377	1.468	1.469	93.6	96.7	2.018	2.020	1.924	1.924
September	2.392	2.398	1.478	1.481	92.3	95.9	2.033	2.037	1.941	1.942
October	2.423	2.425	1.499	1.501	96.6	94.4	2.057	2.060	1.960	1.966

Fore. = November Forecast
C.E. = Current Expectations

RETAIL SALES

	Retail Sales Fore.	Retail Sales C.E.	Non Auto Durables Fore.	Non Auto Durables C.E.	Auto (Million Units) Fore.	Auto (Million Units) C.E.	Nondurable Sales Fore.	Nondurable Sales C.E.	Auto Sales Fore.	Auto Sales C.E.
July 1980	78.29	78.29	10.88	10.88	8.9	8.9	53.21	53.21	14.20	14.20
August	78.76	78.77	10.87	10.88	8.9	8.9	53.90	53.95	13.99	13.94
September	80.02	80.08	10.65	11.17	8.3	8.3	54.62	54.22	14.75	14.70
October	80.95	80.52	10.88	11.22	9.0	9.1	54.95	55.06	15.12	14.24
November	81.04	81.83	10.93	11.57	8.9	8.6	55.12	55.77	14.99	14.49
December	81.44	82.15	10.98	11.55	8.8	8.9	55.61	56.23	14.85	14.37
January 1981	82.13	82.70	11.02	11.63	8.8	9.0	56.11	56.59	15.00	14.48
February	82.50	83.06	11.05	11.55	8.7	9.1	56.35	56.82	15.10	14.69
March	83.19	83.48	11.19	11.46	8.8	9.0	56.52	57.35	15.48	14.67
April	84.10	83.86	11.25	11.40	9.0	9.0	57.01	57.56	15.84	14.90
May	85.06	84.52	11.32	11.45	9.1	9.1	57.76	58.05	15.98	15.02
June	86.09	85.44	11.39	11.51	9.2	9.3	58.58	58.65	16.12	15.28
July	86.79	86.68	11.43	11.61	9.2	9.5	59.05	59.41	16.31	15.66
August	87.49	87.51	11.49	11.67	9.3	9.6	59.26	59.86	16.74	15.98
September	87.65	87.72	11.55	11.74	9.3	9.6	59.22	59.82	16.88	16.16
October	88.28	88.75	11.60	11.82	9.6	9.7	59.58	60.41	17.10	16.52

INDUSTRIAL PRODUCTION

	Industrial Production Fore.	Industrial Production C.E.	Capacity Utilization Fore.	Capacity Utilization C.E.
July 1980	140.1	140.4	74.6	74.9
August	141.0	141.8	75.0	75.4
September	142.4	143.9	75.6	76.6
October	143.1	146.5	75.9	77.9
November	143.8	148.5	76.2	78.8
December	144.2	148.4	76.3	78.5
January 1981	142.9	147.3	75.2	77.7
February	142.2	146.2	74.5	76.8
March	141.4	145.0	73.8	75.9
April	142.7	144.3	74.4	75.3
May	143.2	144.5	74.6	75.1
June	144.3	145.0	75.2	75.1
July	144.4	145.2	75.0	75.0
August	144.5	146.3	74.8	75.3
September	144.7	146.9	74.8	75.4
October	145.9	148.2	75.3	75.8

Fore. = November Forecast
C.E. = Current Expectations

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HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
uly 1980	1.265	1.265	0.869	0.869	1.236	1.236	214.2	214.2	95.7	95.7
ugust	1.416	1.429	1.000	1.003	1.361	1.361	215.1	215.1	95.9	95.9
eptember	1.544	1.545	1.050	1.058	1.561	1.564	222.0	224.1	98.8	99.7
ctober	1.565	1.561	1.015	1.037	1.406	1.333	226.3	225.0	100.5	99.9
ovember	1.333	1.555	0.922	0.987	1.211	1.371	228.2	226.9	101.0	99.8
ecember	1.167	1.431	0.802	0.896	1.053	1.256	227.4	229.4	100.2	100.4
anuary 1981	1.096	1.299	0.731	0.791	0.942	1.127	230.4	230.2	100.8	100.2
ebruary	1.186	1.212	0.738	0.743	0.996	1.024	228.1	225.9	99.0	97.6
arch	1.261	1.176	0.805	0.729	1.063	0.996	230.5	222.2	99.3	95.5
pril	1.306	1.238	0.912	0.776	1.096	1.061	234.3	220.6	100.2	94.1
ay	1.408	1.285	0.962	0.812	1.207	1.115	238.4	221.8	101.2	93.9
une	1.543	1.342	0.994	0.849	1.349	1.185	242.8	224.9	102.4	94.4
uly	1.529	1.424	1.026	0.901	1.368	1.274	246.6	229.1	103.3	95.5
ugust	1.486	1.453	1.021	0.938	1.322	1.306	249.7	233.9	103.8	96.8
eptember	1.533	1.471	1.043	0.953	1.359	1.341	253.1	239.2	104.5	98.3
ctober	1.607	1.547	1.092	1.007	1.449	1.411	256.7	243.7	105.1	99.3

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1980	84.0	84.0	55.3	55.3	75.0	75.0
August	82.8	82.8	52.5	52.5	79.8	79.8
September	82.2	82.8	54.2	55.4	85.5	85.9
October	83.1	82.4	54.6	55.1	88.6	87.5
November	83.6	82.0	55.0	54.6	89.6	90.3
December	84.0	82.2	54.8	55.0	88.6	92.2
January 1981	85.0	83.4	56.1	55.9	89.3	90.9
February	84.3	83.0	55.9	55.3	87.9	87.6
March	85.0	83.7	56.9	55.9	88.6	82.6
April	86.0	84.2	57.1	56.3	91.2	80.1
May	87.1	85.1	57.3	56.7	94.0	80.0
June	88.3	86.0	57.5	57.0	97.0	81.9
July	89.2	87.1	58.2	57.0	99.2	85.0
August	90.4	88.5	58.8	57.3	100.5	88.1
September	91.8	89.9	59.2	57.9	102.1	91.4
October	93.0	91.2	59.4	58.3	104.3	94.2

Fore. = November Forecast
C.E. = Current Expectations

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1980	244.1	244.1	73.98	74.23	21.61	21.61	21.04	21.04
August	243.6	243.5	72.87	72.23	20.32	19.37	21.12	20.37
September	244.4	243.6	73.95	78.96	20.73	21.27	21.09	21.88
October	245.5	243.3	76.49	80.69	21.06	20.62	21.29	21.68
November	246.0	244.3	76.25	81.45	20.85	21.72	21.17	21.55
December	246.2	245.6	77.14	80.19	21.05	20.63	21.11	21.42
January 1981	248.5	247.1	78.26	81.26	21.38	21.06	21.37	21.37
February	249.6	248.6	80.43	83.33	22.15	21.77	21.58	21.63
March	250.1	249.9	80.36	84.36	23.42	22.06	21.85	22.01
April	251.0	251.2	82.29	87.89	24.05	23.09	22.06	22.15
May	252.3	252.1	82.15	90.12	24.01	23.75	22.28	22.32
June	253.2	253.0	81.09	87.63	23.92	23.42	22.49	22.52
July	254.0	253.6	83.92	86.26	24.67	23.38	22.68	22.69
August	255.2	254.5	83.86	85.12	24.43	23.07	22.88	22.85
September	256.3	255.4	85.29	87.17	25.16	23.68	23.10	23.06
October	257.4	256.6	86.42	89.66	25.43	24.41	23.36	23.39

	Business Inventories		Defense Shipments	
	Fore.	C.E.	Fore.	C.E.
July 1980	449.5	449.5	3.45	3.45
August	451.5	452.0	3.41	3.32
September	453.7	454.6	3.49	3.80
October	456.5	457.4	3.64	3.74
November	459.2	460.1	3.52	3.72
December	461.0	462.9	3.51	3.75
January 1981	464.3	466.6	3.56	3.79
February	468.2	470.3	3.65	3.83
March	471.2	473.1	3.78	3.86
April	474.3	476.0	3.76	3.85
May	477.5	478.6	3.78	3.91
June	480.4	481.0	3.81	3.94
July	483.4	483.7	3.88	3.98
August	486.6	486.8	3.95	4.02
September	489.3	489.8	4.02	4.09
October	492.1	492.7	4.09	4.16

Fore. = November Forecast
C.E. = Current Expectations

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PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1980	247.8	247.8	246.6	247.1	275.6	276.2	247	247	36.5	36.5
August	249.4	249.4	249.0	249.0	277.3	277.3	256	256	39.5	39.5
September	251.7	251.7	248.9	248.9	278.2	278.2	261	261	42.6	41.3
October	254.0	253.9	250.8	252.2	281.6	281.2	263	260	34.3	30.0
November	256.5	255.9	253.1	253.2	284.3	282.7	264	265	33.6	30.1
December	259.6	258.4	256.1	254.2	287.0	284.6	267	261	32.5	36.1
January 1981	262.5	261.5	259.3	256.5	290.0	287.3	271	260	39.1	32.9
February	265.1	264.9	262.1	259.2	292.9	290.1	274	265	42.3	40.9
March	267.4	267.5	264.7	262.0	296.7	292.9	278	269	45.2	47.3
April	269.7	269.9	267.2	264.7	298.9	296.3	281	274	40.0	45.4
May	271.9	272.3	269.7	267.5	301.2	299.4	283	277	36.1	44.3
June	274.1	274.5	271.9	270.2	303.5	301.6	282	275	31.9	41.2
July	275.7	276.7	273.3	272.9	305.4	304.3	286	279	39.2	38.8
August	277.2	278.7	274.7	275.7	307.4	307.2	289	283	39.5	38.5
September	279.0	280.3	276.7	277.7	309.5	310.1	292	288	39.3	40.9
October	280.2	283.1	278.5	280.6	311.5	314.6	294	291	36.9	39.6

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July 1980	-920	-920	128.6	128.4	2549	2550	1402	1402	1.8182	1.8189
August	-132	-132	131.0	131.1	2588	2585	1413	1409	1.8313	1.8342
September	-773	-663	132.7	135.1	2613	2625	1422	1424	1.8381	1.8435
October	-865	-875	132.9	136.3	2659	2662	1425	1426	1.8662	1.8674
November	-729	-929	131.6	136.8	2684	2705	1428	1440	1.8793	1.8781
December	-831	-905	130.9	135.9	2704	2717	1430	1438	1.8915	1.8898
January 1981	-1166	-1131	129.9	134.4	2714	2737	1424	1436	1.9053	1.9051
February	-1652	-1553	130.6	133.1	2729	2743	1419	1426	1.9226	1.9234
March	-1957	-1867	132.1	131.5	2754	2742	1421	1414	1.9387	1.9391
April	-2132	-1842	134.3	132.3	2780	2751	1426	1409	1.9497	1.9520
May	-1748	-1672	137.2	134.1	2805	2768	1430	1410	1.9610	1.9639
June	-1770	-1647	138.0	135.0	2837	2796	1438	1417	1.9735	1.9729
July	-2146	-1826	138.2	135.6	2862	2840	1440	1432	1.9869	1.9834
August	-2352	-1927	138.8	135.3	2882	2869	1442	1438	1.9983	1.9947
September	-2027	-2142	139.5	136.5	2903	2897	1444	1445	2.0102	2.0046
October	-2316	-2087	139.8	138.2	2931	2938	1444	1449	2.0295	2.0280

Fore. = November Forecast
C. E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July 1980	160.5	160.5	394.5	394.5	1609.6	1609.7	9.03	9.03	8.06	8.06
August	162.5	162.5	401.7	401.6	1629.1	1629.2	9.61	9.61	9.41	9.41
September	164.2	164.2	406.9	406.9	1640.7	1640.7	10.87	10.87	10.57	10.57
October	164.8	164.9	408.5	410.7	1654.4	1653.3	12.46	12.81	11.96	11.63
November	166.0	166.3	411.2	414.1	1664.1	1668.5	12.87	15.59	12.42	13.50
December	166.9	167.2	414.8	416.7	1677.0	1682.3	13.40	18.99	13.00	15.21
January 1981	167.7	168.0	417.8	418.5	1692.1	1696.3	12.19	19.27	11.70	15.03
February	168.6	168.6	419.7	420.6	1702.7	1709.9	11.59	14.53	11.07	13.06
March	169.8	169.1	421.9	421.9	1714.6	1718.6	11.11	13.92	10.56	10.99
April	170.5	169.7	423.0	423.0	1725.8	1728.2	11.38	12.46	10.83	10.41
May	171.3	170.5	424.2	424.0	1735.8	1737.5	11.86	12.36	11.30	10.16
June	172.1	171.2	425.4	425.1	1745.8	1747.2	12.82	12.15	12.23	10.25
July	173.5	172.3	429.1	428.3	1763.6	1763.8	10.71	13.02	9.64	10.43
August	174.7	173.5	432.8	430.9	1781.8	1779.8	9.65	14.13	8.49	10.99
September	175.9	175.1	436.8	433.5	1801.4	1795.9	8.98	14.25	7.72	11.17
October	176.8	176.3	439.6	436.1	1820.6	1812.1	9.63	13.82	8.85	11.01

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July 1980	11.07	11.07	8.01	8.01	8.41	8.41	8.65	8.65	11.48	11.48
August	11.64	11.64	8.65	8.65	9.57	9.57	9.91	9.91	11.12	11.12
September	12.02	12.02	8.94	8.94	10.97	10.97	11.29	11.29	11.89	12.23
October	12.26	12.31	9.11	9.11	12.57	12.52	12.86	12.94	13.55	13.79
November	12.51	12.97	9.32	9.56	13.15	15.18	13.47	15.68	15.03	16.06
December	12.49	13.15	9.24	9.84	13.66	18.46	14.03	18.93	15.55	19.92
January 1981	12.21	12.91	9.01	9.62	12.32	19.07	12.72	19.37	14.48	20.85
February	11.79	12.17	8.67	9.03	11.68	14.31	12.13	14.62	13.79	17.69
March	11.46	11.93	8.39	8.83	10.96	13.76	11.43	14.05	13.05	16.43
April	11.69	11.52	8.48	8.49	10.99	12.33	11.55	12.63	13.25	14.27
May	12.13	11.50	8.76	8.42	11.26	12.15	11.83	12.47	13.43	13.99
June	12.03	11.73	8.66	8.56	12.75	12.02	13.13	12.29	14.50	13.75
July	11.47	11.88	8.21	8.61	11.14	13.15	12.01	13.37	14.00	14.66
August	10.86	11.59	7.71	8.37	10.02	14.31	10.41	14.45	12.49	15.92
September	10.58	11.55	7.49	8.32	9.43	14.35	9.76	14.62	11.50	16.25
October	10.94	11.41	7.74	8.17	9.97	14.01	10.26	14.29	11.73	16.08

Fore. = November Forecast
C. E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS
FOR JANUARY

ECONOMY HAS STALLED BUT SHARP DECLINE IS UNLIKELY

Our latest monthly estimates, based upon preliminary modifications to incorporate revised GNP procedures, indicate that real economic activity declined slightly in December. Unfortunately, the December numbers are very mixed. The indexes of hours worked and industrial production show continuing economic gains, but many of the components in these indices were estimated from data derived early in the month. Initial estimates of consumer outlays show a real decline at an annual rate of almost 4%. In addition, shipments of nondefense capital goods and of defense capital goods declined in nominal terms during December. Also, the merchandise trade balance increased sharply because of significant increases in importing petroleum products. The only areas expected to show increases in December are construction and inventory investment, both of which have not yet been reported.

Of course, some of these monthly estimates must be viewed with caution. As mentioned in our last Projections, the seasonal adjustment factor used in retail sales and in housing activity may be overestimating the degree of strength in November and underestimating activity in December. However, a modest decline in sensitive short-term interest rates, excluding the federal funds rate, and extreme sluggishness in the growth of M-2, strongly support the contention that economic activity declined in December.

We expect to see a modest rebound in economic activity in January. This rebound will be the result of consumer outlays returning to more normal patterns and to rising construction spending in response to previous strength in housing activity. This modest rebound also is partially confirmed by a temporary end to declining short-term interest rates and by a modest acceleration in the growth of some monetary aggregates. However, personal savings is expected to fall to unsustainable levels because of increased social security taxes while

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continued high mortgage rates should turn construction downward. Thus a modest decrease in economic activity with commensurate decreases in short-term interest rates should resume in February. This decline is not expected to be sharp, as housing and automobile sales simply cannot fall to the same extent as they did in 1980. Increases again should develop after positive tax action becomes known in the spring.

Quarterly Profile of GNP

	1980-IV	1981-I	1981-II	1981-III	1981-IV
Real	5.0	0.0	-2.1	2.2	4.3
Price	11.2	10.4	10.2	9.9	9.3
Nominal	16.7	10.5	7.8	12.3	14.0
Real Gross Private Domestic Product	6.1	0.1	-2.5	2.5	4.8

Note: The index of hours worked increased 7.6% at annual rates in the fourth quarter, suggesting that productivity declined. Industrial production increased at an annual rate of 20.8%, suggesting that this measure of economic activity is overestimating conditions at the present time.

Monthly Statistical Highlights
for January 1981

Payroll employment, +84,000; index of hours worked, +0.2%; household employment; +170,000; unemployment rate, 7.5%; personal income, +0.3%; personal outlays, +1.2%; retail sales, +1.7%; automobile sales, 9.3 million; industrial production, +0.5%; housing starts, -7.4%; housing permits, -5.7%; construction expenditures, +1.4%; business inventories, +0.7%; orders for durable goods, -1.1%; orders for nondefense capital goods, -0.1%; CPI, +1.0%; PPI, +1.0%; agricultural prices, +1.5%; merchandise trade balances, (new basis), -$2.85 billion; leading indicators, -0.9%; M1-B, +20.0%; M2, +5.0%.

Monthly Statistical Highlights
for February 1981

Payroll employment, +79,000; index of hours worked, -0.2%; household employment, +165,000; unemployment rate, 7.5%; personal income,+1.0%; personal outlays, +0.6%; retail sales, +0.1%; automobile sales, 9.2 million; industrial production, -0.3%; housing starts, -10.4%; housing permits, -5.9%; construction expenditures, -1.2%; business inventories, +0.8%; durable goods orders, +2.3%; orders for nondefense capital goods, +1.7%; CPI, +1.1%; PPI, +1.0%; agricultural prices, 0; merchandise trade balances, (new basis),-$2.45 billion; leading indicators, -1.2%; M1-B, +5.6%; M2, +9.5%.

Data Revisions Reduce Thunder of Supply Siders

The benchmark data revisions for the GNP that were released late December contain several methodological and several procedural changes. In general, the methodological changes alter the definitional characteristics of GNP. In other words, methodological changes alter the relationship between GNP and other economic variables, such as the velocity of money. Generally, procedural changes improve the measurement of GNP components. In short, procedural changes reduce measurement errors.

The most significant changes are in the export and import category of expenditures and the corporate profits component of national income. Profits earned by foreign subsidiaries and reinvested abroad previously were excluded from the GNP. They are now included. Since American companies earn substantially more abroad than foreign companies earn in the United States, this change increased net exports by $18 billion in 1979. Furthermore, the price deflator which adjusts earnings abroad has been changed from the merchandise trade deflator to the deflator for gross domestic product. This sharply reduces prices for exports and imports and reduces the volatility of those deflators. In real terms, GNP is increased by $20 billion as a result of the combined changes. Corporate profits before taxes are increased by the amount of the net reinvestment factor in the net export component.

A second methodological change removes hotel and motel investments from the nonhousing component of residential investment and places it in fixed investment. This change has no impact upon gross domestic investment, but it alters the various measures of capital expenditures.

Procedural changes include greater detail and better expenditure rates on the food component of personal consumption expenditures. These changes generally reduce estimates of food spending while reducing the price deflator by a slightly greater amount. In the services component of consumption expenditures, better estimates of health insurance premiums are derived and better price information is developed for medical services. The result is to reduce dollar expenditures on services and increase inflation adjusted services expenditures.

New data sources have sharply increased the estimates of expenditures on fixed investment. Indeed, investment as a share of GNP did not decline in the 1970s as originally reported. In 1978 and 1979, the share of GNP going into investment actually rose above the postwar average. Those data sources also show that interest income was significantly understated and that rental income also was understated in recent years. As a result, personal income in 1979 was increased by nearly $20 billion. Since personal outlays were increased by smaller amounts, personal savings were revised upward significantly. In the early 1970s the upward revision in personal savings was only about 7%. In 1979, however, personal savings was revised upward by almost 17%. As a result, savings rates did not fall to unsustainably low levels in 1979 and 1980.

The effects of all these changes is to modestly raise the productivity and underlying growth factors in the economy. The accumulation of capital is sharply increased relative to previous estimates, although the capital-labor ratios in the last six years show no significant growth. Because of the revision in net export components, gross domestic product becomes a more significant variable than gross national product. For example, in 1979 gross national product is revised upward by nearly 2%. Gross domestic product on the other hand is increased only 1.1%. In constant dollars, the revisions are 3.6% for gross national product in 1979 and 2.4% for gross domestic product. The revisions also increase returns on capital. Previous estimates that the return on capital had been eroding in the mid 1970s are no longer sustained by these estimates. Furthermore, capital accumulation has not been unusually low in proportion to GNP, although it has grown unusually low in proportion to the growth of labor inputs. In general, the revisions reduced the empirical responsiveness of the economy to supply side incentives and reduced the discrepancy between economic conditions in the inflation plagued decade of the '70s relative to earlier postwar decades.

COMMENTARY

Employment

A serious discrepancy has continued to develop between payroll and household estimates of employment. Between August and December, payroll employment has increased by 980,000. At the same time, household employment has increased by only 279,000. In December, payroll employment rose 205,000 while household employment actually declined by 57,000. Indeed, the discrepancy is even greater than those numbers suggest, as agricultural employment, which is included only in household estimates, grew by 184,000 in the August-December period. Fortunately, labor force estimates also have been noticeably modest. Despite sharply rising estimates of employment in goods producing industries, the male labor force has experienced little growth. The labor force for women 20 and over also showed no growth. This absence of any noticeable expansion in the labor force has led to continuing declines in the unemployment rate. However, such modest declines in participation rates cannot be expected to persist. For this reason, unemployment rates should trend upward even if employment opportunities continue to expand.

In December, the total increase in the index of hours worked was generated by expansion in goods producing industries. However, the weakness in services was completely concentrated in retail trade activity. Although this weakness corresponds to the sharp decline in retail sales, the magnitude of the decline is surprisingly large.

Personal Income

Because of upward revisions in interest income and rental income, revised estimates of personal income are nearly $40 billion above previous estimates. Some revisions of employment estimates show that wage and salary gains have been understated by about $15 billion. (Moreover, about $7 billion of wage compensation has been shifted from benefits to actual wages). Because personal outlays are not significantly affected by the revisions, disposable income and personal savings have been increased by these changes.

In December, personal income grew by 1% while personal outlays increased only 0.3%. This led to a significant increase in personal savings. Higher social security taxes and a return to more normal outlays in January should sharply reduce savings.

The weakness in retail sales is almost totally concentrated in the auto component. Seasonally adjusted unit sales declined by a smaller percentage than the decrease in value. Despite this weakness in retail sales, which was also registered in department store sales and in gasoline station sales, the non-auto component of durable goods continued to rise. This strength in hardware and furniture confirms a surprising increase in both shipments and orders for household durable goods that was recorded in December.

Construction

High mortgage rates have not yet significantly reduced housing activity. Single family starts are more than 112,000 below their September recovery peaks, but strong gains in multi-family activity, only partially supported by government subsidies, have preserved significant strength in housing. Housing permits, however, signal some reduction in starts in the months ahead. Indeed, starts now are more than 300,000 above permits. Unless permits rise noticeably in January, a condition that is not expected, starts could fall by more than 150,000 in that month.

The continuing strength in housing starts leads to higher than previously anticipated construction expenditures. Upward revisions in private nonresidential construction activity also are responsible for some of these construction gains. However, private nonresidential construction activity is declining after adjustment for inflation.

Business Activity

Durable goods orders remained surprisingly strong in December despite some weakness in the transportation sector following unusually strong orders in November. The downward adjustment in transportation orders was less than expected because some 757 orders continued to be written. This also helped to preserve most of the gains initially recorded for nondefense capital goods orders in November. However, shipments of defense and nondefense capital goods fell in December. Indeed, nondefense capital shipments could be more sluggish than contained in these projections because of growing uncertainty about the form of the anticipated changes in depreciation guidelines. Until the depreciation legislation is well advanced, weakness in capital spending should persist.

Although no inventory data yet is available for December, the sharp increase in industrial production suggests that business inventories grew significantly. Moreover, the decline in retail sales suggests that retail inventories also expanded noticeably.

Prices

Food inflation has been less intense than previously anticipated because of surprisingly strong inventories of frozen pork products and because of higher hog herds than had previously been expected. Indeed, we have revised downward our estimates of agricultural inflation to the vicinity of 10-12% in 1981. However, mortgage interest rates are expected to remain higher than had previously been expected. As a result, the Consumer Price Index is expected to increase more rapidly than was contained in our November forecast, especially in the latter part of 1981.

Financial Markets

While the rush into NOW accounts clearly has distorted the significance of M1-B (probably adding a savings component to that monetary measure), monetary aggregates are tending to grow more slowly than had been expected in November. (The sharply lower estimates for the monetary base generally reflect a downward revision in the component). In December, M2 grew at the slowest rate since last April. Growth in M2 is expected to remain sluggish in January and February. This means that the Federal Reserve is becoming increasingly tight.

Sensitive interest rates reveal that the Federal Reserve probably is currently responsible for keeping short-term interest rates unusually high. While the federal funds rate remained unchanged in December and January, most other interest rates fell significantly. For example, commercial paper rates have declined by more than 2 percentage points. A modest rally also has occurred in long-term interest rates. The Federal Reserve is expected to continue relatively tight monetary policy, leading to higher interest rates for any given monetary demand. Unfortunately, higher energy prices preclude any significant lessening in the demand for money early in 1981. As a result, interest rates have been revised upward noticeably from forecasted values. Despite these upward revisions, an unmistakeable downward trend in both short-term and long-term interest rates is developing. When Treasury borrowings rise sharply in the spring, this downward trend may once again be reversed. Nevertheless, a gradual improvement in credit markets is expected through the year.

Stock Market

Early in 1981 wages are expected to accelerate and productivity is expected to deteriorate. At the same time, weak economic activity is expected to constrain the growth of industrial prices. This should lead to a classic profit squeeze. Under such conditions, stock prices probably will decline, even though interest rates also are expected to decline. In the second quarter, however, inflation will begin to recede. Moreover, profits should again begin to firm. Thus, by the end of the second quarter, equity values should begin a sustained upward movement. If these conditions occur, equity values may fall slightly below 900 on the Dow Jones in the first quarter before rallying to a high in excess of 1100 late in 1981.

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EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1980	90109	90142	123.0	123.0	97006	97003	7.6	7.6	253.6	254.0
September	90296	90384	123.7	123.7	97207	97180	7.5	7.4	254.5	255.4
October	90468	90710	124.0	124.5	97321	97206	7.6	7.6	256.5	257.9
November	90595	90917	124.2	125.2	97407	97339	7.7	7.5	257.9	260.7
December	90683	91122	124.3	125.7	97541	97282	7.8	7.4	259.4	261.6
January 1981	90695	91206	124.2	125.5	97644	97452	7.9	7.5	261.5	263.6
February	90721	91285	124.0	125.7	97824	97617	7.9	7.5	263.7	266.3
March	90753	91345	124.0	125.6	97899	97660	8.0	7.7	265.5	268.7
April	90914	91320	124.3	125.4	98083	97721	7.9	7.8	267.4	269.8
May	91049	91406	124.6	125.5	98255	97871	7.9	7.8	269.0	271.4
June	91391	91551	125.0	125.7	98442	97974	7.9	7.9	271.2	274.0
July	91467	91630	125.1	125.9	98762	98146	7.8	7.9	272.7	274.8
August	91506	91837	125.2	126.0	98848	98338	7.9	7.9	274.4	276.9
September	91617	91983	125.2	126.2	99024	98684	7.9	7.8	276.3	278.1
October	91836	92134	125.5	126.5	99142	98825	7.8	7.8	278.3	281.1
November	92015	92358	125.9	126.9	99345	99101	7.8	7.7	280.5	283.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1980	2.140	2.179	1.329	1.342	79.1	107.4	1.806	1.838	1.727	1.730
September	2.160	2.206	1.339	1.357	84.1	116.8	1.822	1.859	1.738	1.742
October	2.189	2.235	1.360	1.382	88.4	105.3	1.846	1.881	1.758	1.776
November	2.205	2.260	1.370	1.400	83.8	102.3	1.857	1.900	1.773	1.798
December	2.220	2.282	1.379	1.413	80.7	112.0	1.868	1.916	1.787	1.804
January 1981	2.229	2.289	1.389	1.422	99.9	93.6	1.901	1.919	1.801	1.825
February	2.246	2.312	1.398	1.437	95.8	101.0	1.915	1.937	1.819	1.836
March	2.264	2.330	1.408	1.448	86.9	101.5	1.929	1.951	1.842	1.849
April	2.284	2.342	1.421	1.453	87.3	95.6	1.945	1.961	1.858	1.865
May	2.301	2.358	1.433	1.462	85.7	94.3	1.958	1.972	1.872	1.878
June	2.322	2.379	1.449	1.477	84.1	109.9	1.975	2.017	1.891	1.907
July	2.359	2.410	1.458	1.484	98.5	114.7	2.008	2.044	1.910	1.929
August	2.373	2.430	1.468	1.496	93.6	110.7	2.018	2.058	1.924	1.947
September	2.392	2.445	1.478	1.504	92.3	101.8	2.033	2.067	1.941	1.965
October	2.423	2.476	1.499	1.527	96.6	109.3	2.057	2.091	1.960	1.982
November	2.444	2.501	1.511	1.545	95.5	108.2	2.075	2.110	1.979	2.002

Fore. = November Forecast
C.E. = Current Expectations

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1980	78.76	78.77	10.87	10.88	8.9	8.9	53.90	53.95	13.99	13.94
September	80.02	80.09	10.65	11.17	8.3	8.5	54.62	54.22	14.75	14.70
October	80.95	80.61	10.88	11.26	9.0	9.2	54.95	55.02	15.12	14.33
November	81.04	81.93	10.93	11.72	8.9	9.3	55.12	55.38	14.99	14.84
December	81.44	80.83	10.98	11.88	8.8	8.9	55.61	55.21	14.85	13.74
January 1981	82.13	82.23	11.02	11.95	8.8	9.3	56.11	55.92	15.00	14.36
February	82.50	82.26	11.05	12.06	8.7	9.2	56.35	55.90	15.10	14.30
March	83.19	82.61	11.19	11.92	8.8	9.1	56.52	56.27	15.48	14.42
April	84.10	83.07	11.25	11.90	9.0	9.1	57.01	56.65	15.84	14.52
May	85.06	83.23	11.32	11.91	9.1	9.1	57.76	56.68	15.98	14.64
June	86.09	84.92	11.39	11.91	9.2	9.3	58.58	57.80	16.12	15.21
July	86.79	85.91	11.43	12.09	9.2	9.3	59.05	58.32	16.31	15.50
August	87.49	86.54	11.49	12.10	9.3	9.3	59.26	58.71	16.74	15.67
September	87.65	87.34	11.55	12.24	9.3	9.4	59.22	59.21	16.88	15.89
October	88.28	88.01	11.60	12.33	9.6	9.4	59.58	59.86	17.10	15.82
November	89.61	88.98	11.71	12.56	9.6	9.5	60.44	60.09	17.46	16.33

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.
August 1980	141.0	141.8	75.0	75.4
September	142.4	144.1	75.6	76.7
October	143.1	146.8	75.9	78.1
November	143.8	149.2	76.2	79.3
December	144.2	150.7	76.3	79.8
January 1981	142.9	150.0	75.2	79.1
February	142.2	150.6	74.5	79.2
March	141.4	149.6	73.8	78.5
April	142.7	148.1	74.4	77.5
May	143.2	148.5	74.6	77.5
June	144.3	149.3	75.2	77.7
July	144.4	150.1	75.0	77.9
August	144.5	150.6	74.8	78.0
September	144.7	151.1	74.8	78.2
October	145.9	152.0	75.3	78.5
November	147.2	153.1	75.8	78.9

Fore. = November Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August 1980	1.416	1.429	1.000	1.003	1.361	1.246	215.1	215.1	95.9	96.1
September	1.544	1.541	1.050	1.059	1.561	1.362	222.0	223.7	98.8	99.7
October	1.565	1.569	1.015	1.011	1.406	1.393	226.3	226.2	100.5	99.9
November	1.333	1.563	0.922	1.012	1.211	1.355	228.2	231.8	101.0	101.4
December	1.167	1.548	0.802	0.947	1.053	1.233	227.4	235.2	100.2	102.0
January 1981	1.096	1.433	0.731	0.893	0.942	1.177	230.4	238.5	100.8	102.6
February	1.186	1.284	0.738	0.781	0.996	1.108	228.1	235.6	99.0	100.7
March	1.261	1.234	0.805	0.765	1.063	1.045	230.5	232.1	99.3	98.4
April	1.306	1.191	0.912	0.737	1.096	1.029	234.3	227.7	100.2	95.8
May	1.408	1.240	0.962	0.775	1.207	1.064	238.4	225.5	101.2	94.3
June	1.543	1.373	0.994	0.902	1.349	1.173	242.8	227.6	102.4	94.4
July	1.529	1.408	1.026	0.943	1.368	1.216	246.6	232.1	103.3	95.5
August	1.486	1.349	1.021	0.921	1.322	1.197	249.7	238.0	103.8	97.2
September	1.533	1.437	1.043	0.953	1.359	1.245	253.1	241.8	104.5	98.1
October	1.607	1.528	1.092	1.026	1.449	1.332	256.7	243.4	105.1	98.0
November	1.648	1.570	1.143	1.041	1.493	1.382	261.2	247.4	106.0	98.9

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C. E.	Fore	C. E.
August 1980	82.8	83.5	52.5	53.1	79.8	78.6
September	82.2	83.5	54.2	55.8	85.5	84.4
October	83.1	83.7	54.6	55.1	88.6	87.4
November	83.6	84.5	55.0	53.8	89.6	93.5
December	84.0	84.5	54.8	54.1	88.6	96.6
January 1981	85.0	86.0	56.1	55.3	89.3	97.2
February	84.3	85.3	55.9	55.0	87.9	95.3
March	85.0	85.7	56.9	55.5	88.6	90.9
April	86.0	86.1	57.1	55.9	91.2	85.7
May	87.1	86.9	57.3	56.4	94.0	82.2
June	88.3	88.3	57.5	56.8	97.0	82.5
July	89.2	89.2	58.2	57.2	99.2	85.7
August	90.4	90.8	58.8	57.0	100.5	90.2
September	91.8	91.3	59.2	58.5	102.1	92.0
October	93.0	91.9	59.4	58.1	104.3	93.4
November	94.1	93.0	59.7	58.0	107.4	96.4

Fore. = November Forecast
C. E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1980	243.6	243.5	72.87	72.23	20.32	19.37	21.12	20.37
September	244.4	243.6	73.95	78.96	20.73	20.86	21.09	21.88
October	245.5	242.9	76.49	80.69	21.06	20.62	21.29	21.84
November	246.0	244.2	76.25	81.05	20.85	21.85	21.17	21.86
December	246.2	246.1	77.14	82.56	21.05	21.82	21.11	21.39
January 1981	248.5	247.6	78.26	81.63	21.38	21.79	21.37	22.05
February	249.6	249.2	80.43	83.51	22.15	22.15	21.58	22.12
March	250.1	250.8	80.36	84.69	23.42	22.56	21.85	22.26
April	251.0	252.0	82.29	85.72	24.05	22.77	22.06	22.41
May	252.3	253.5	82.15	87.41	24.01	23.12	22.28	22.62
June	253.2	254.1	81.09	89.16	23.92	23.46	22.49	22.78
July	254.0	255.0	83.92	88.53	24.67	23.47	22.68	22.89
August	255.2	256.3	83.86	89.51	24.43	23.68	22.88	23.22
September	256.3	257.2	85.29	91.16	25.16	24.14	23.10	23.46
October	257.4	258.6	86.42	92.10	25.43	24.43	23.36	23.69
November	258.2	259.4	87.92	93.20	25.69	24.79	23.61	23.85

	Business Inventories		Defense Shipments	
	Fore.	C.E.	Fore.	C.E.
August 1980	451.5	452.0	3.41	3.32
September	453.7	454.5	3.49	3.80
October	456.5	456.5	3.64	3.78
November	459.2	458.2	3.52	3.86
December	461.0	464.1	3.51	3.76
January 1981	464.3	467.3	3.56	3.82
February	468.2	471.0	3.65	3.93
March	471.2	474.9	3.78	4.00
April	474.3	478.1	3.76	3.92
May	477.5	481.1	3.78	4.01
June	480.4	483.2	3.81	4.17
July	483.4	485.1	3.88	4.11
August	486.6	488.2	3.95	4.18
September	489.3	491.3	4.02	4.19
October	492.1	494.2	4.09	4.25
November	495.2	496.9	4.15	4.30

Fore. = November Forecast
C.E. = Current Expectations

PRICES

	CPI (Unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August 1980	249.4	249.4	249.0	249.1	277.3	278.2	256	256	39.5	52.7
September	251.7	251.7	248.9	248.9	278.2	278.2	261	261	42.6	42.3
October	254.0	253.9	250.8	252.2	281.6	281.2	263	260	34.3	45.3
November	256.5	256.2	253.1	253.2	284.3	282.7	264	264	33.6	37.5
December	259.6	258.4	256.1	254.7	287.0	286.1	267	261	32.5	54.9
January 1981	262.5	261.0	259.3	257.2	290.0	289.0	271	265	39.1	52.7
February	265.1	263.8	262.1	259.8	292.9	293.0	274	265	42.3	65.6
March	267.4	266.0	264.7	262.1	296.7	295.6	278	267	45.2	57.0
April	269.7	268.3	267.2	264.6	298.9	298.4	281	271	40.0	50.5
May	271.9	270.8	269.7	267.4	301.2	300.7	283	273	36.1	43.2
June	274.1	273.6	271.9	270.5	303.5	302.2	282	273	31.9	39.6
July	275.7	276.2	273.3	273.6	305.4	305.3	286	276	39.2	41.4
August	277.2	278.5	274.7	276.0	307.4	307.8	289	279	39.5	41.2
September	279.0	280.4	276.7	278.2	309.5	310.2	292	283	39.3	43.2
October	280.2	282.3	278.5	280.3	311.5	312.7	294	282	36.9	38.9
November	283.3	284.1	281.7	282.2	314.6	314.4	297	286	36.2	34.7

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August 1980	-132	-132	131.0	130.6	2588	2625	1413	1465	1.8313	1.791
September	-773	-764	132.7	135.0	2613	2675	1422	1482	1.8381	1.805
October	-865	-972	132.9	136.0	2659	2713	1425	1486	1.8662	1.825
November	-729	-788	131.6	137.6	2684	2748	1428	1495	1.8793	1.838
December	-831	-853	130.9	136.5	2704	2763	1430	1490	1.8915	1.855
January 1981	-1166	-1162	129.9	135.3	2714	2802	1424	1497	1.9053	1.871
February	-1652	-1409	130.6	133.7	2729	2811	1419	1490	1.9226	1.886
March	-1957	-1643	132.1	132.4	2754	2819	1421	1483	1.9387	1.901
April	-2132	-1627	134.3	131.9	2780	2840	1426	1482	1.9497	1.916
May	-1748	-1548	137.2	132.6	2805	2859	1430	1480	1.9610	1.932
June	-1770	-1558	138.0	133.8	2837	2894	1438	1485	1.9735	1.948
July	-2146	-1729	138.2	135.1	2862	2918	1440	1486	1.9869	1.963
August	-2352	-1892	138.8	136.2	2882	2949	1442	1490	1.9983	1.979
September	-2027	-1999	139.5	137.5	2903	2979	1444	1495	2.0102	1.992
October	-2316	-2141	139.8	138.9	2931	3016	1444	1501	2.0295	2.009
November	-2453	-2206	140.2	140.1	2983	3047	1459	1506	2.0449	2.022

Fore. = November Forecast
C. E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1980	162.5	159.0	401.7	401.6	1629.1	1629.2	9.61	9.61	9.41	9.41
September	164.2	159.7	406.9	406.9	1640.7	1640.9	10.87	10.87	10.57	10.57
October	164.8	161.9	408.5	410.8	1654.4	1652.9	12.46	12.81	11.96	11.63
November	166.0	162.7	411.2	414.0	1664.1	1667.2	12.87	15.85	12.42	13.50
December	166.9	163.5	414.8	411.0	1677.0	1669.7	13.40	18.90	13.00	14.64
January 1981	167.7	163.1	417.8	417.3	1692.1	1676.5	12.19	18.89	11.70	13.90
February	168.6	163.3	419.7	419.2	1702.7	1689.2	11.59	16.26	11.07	13.14
March	169.8	163.5	421.9	420.8	1714.6	1699.9	11.11	14.36	10.56	11.94
April	170.5	164.4	423.0	422.8	1725.8	1713.1	11.38	13.49	10.83	11.67
May	171.3	165.4	424.2	425.2	1735.8	1728.0	11.86	13.09	11.30	11.76
June	172.1	166.2	425.4	427.5	1745.8	1741.7	12.82	13.68	12.23	12.29
July	173.5	166.7	429.1	429.0	1763.6	1753.0	10.71	14.26	9.64	12.47
August	174.7	167.3	432.8	431.0	1781.8	1766.4	9.65	14.93	8.49	13.02
September	175.9	168.7	436.8	434.6	1801.4	1786.5	8.98	14.01	7.72	12.32
October	176.8	170.1	439.6	438.7	1820.6	1808.7	9.63	13.36	8.85	11.99
November	178.1	171.4	443.1	442.3	1839.0	1830.4	10.42	12.51	9.76	11.42

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1980	11.64	11.64	8.65	8.65	9.57	9.57	9.91	9.91	11.12	11.12
September	12.02	12.02	8.94	8.94	10.97	10.97	11.29	11.29	11.89	12.23
October	12.26	12.31	9.11	9.11	12.57	12.52	12.86	12.94	13.55	13.79
November	12.51	12.97	9.32	9.56	13.15	15.18	13.47	15.68	15.03	16.06
December	12.49	13.21	9.24	10.11	13.66	18.07	14.03	18.65	15.55	20.35
January 1981	12.21	12.65	9.01	9.61	12.32	16.00	12.72	17.07	14.48	20.35
February	11.79	12.51	8.67	9.53	11.68	14.93	12.13	15.56	13.79	18.79
March	11.46	12.27	8.39	9.39	10.96	12.94	11.43	13.59	13.05	16.42
April	11.69	12.25	8.48	9.42	10.99	12.63	11.55	13.11	13.25	15.07
May	12.13	12.43	8.76	9.58	11.26	12.95	11.83	13.43	13.43	15.00
June	12.03	12.67	8.66	9.82	12.75	14.01	13.13	14.46	14.50	15.71
July	11.47	12.74	8.21	9.82	11.14	14.39	12.01	14.75	14.00	16.16
August	10.86	12.86	7.71	9.81	10.02	15.14	10.41	15.47	12.49	16.82
September	10.58	12.51	7.49	9.45	9.43	14.17	9.76	14.46	11.50	16.32
October	10.94	12.36	7.74	9.25	9.97	13.53	10.26	13.87	11.73	15.05
November	11.26	12.04	7.97	8.91	10.69	12.72	11.04	13.01	12.36	14.75

Fore. = November Forecast
C.E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS
FOR FEBRUARY

ECONOMY LACKS DIRECTION AS INFLATIONARY PRESSURES EASE

Our monthly projections for February have been delayed in order to incorporate implications of the President's budget and tax cutting proposals and a surprising shift in the composition of economic activity that was caused by higher than anticipated consumer spending in December and the first decline in inventory investment in five years in December. Some of the implications from that shifting composition toward consumption and away from inventory investment has been modified by the latest employment statistics for February. Because this report is unduly delayed, we have not incorporated the results of those February statistics in our detailed projection. However, implications of those figures will be considered in the summary.

We also have changed from our tradition by including a complete set of projections for the February Newsletter. Normally, we indicate only the monthly distribution of our quarterly forecast during the forecast month. However, we thought that the new projections would be useful in evaluating the implications of the President's program in comparison to our anticipations of that program in our February forecast.

Despite the unusual changes in economic conditions and in government policy, the short-term direction of the economy conformed to our January anticipations. Much of the strength recorded for January in payroll employment, retail sales, and construction expenditures appear to be the result of a seasonal adjustment procedure that continues to excessively consider the unusual weather patterns that developed in January of 1978 and 1979. Thus, seasonally adjusted reductions in those categories during February should not be surprising. However, domestic oil decontrol and the late February spurt in automobile sales will insure some improvement in retail expenditures. Neither the January strength nor the February weakness should be taken too seriously. On the other hand, a modest downturn in construction activity is developing which should be confirmed during the spring construction season. Also, payroll employment and personal income should show

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little growth during the spring. With the personal savings rate already approaching 4%, consumer expenditures in excess of inflationary pressures are not expected until tax cut initiatives have been passed by the Congress.

In short, a minor repetition of economic activity during 1980 now appears likely. The second quarter weakness should not exceed 2%, while July's social security disbursements, a supplemental military pay increase in July, and proposed tax reductions starting in July all suggest that any economic weakness will be arrested at that time.

While the Federal Reserve should manage credit market conditions more smoothly than in 1980, this bulge in federal expenditures suggests that any downward momentum in interest rates will be stalled during the summer. If inflation continues to moderate, as we now expect, a downtrend in interest rates could resume in the fall.

Quarterly Profile of GNP

	1980-IV	1981-I	1981-II	1981-III	1981-IV
Real	4.0	2.5	-1.8	2.6	4.5
Price	10.7	10.1	10.1	8.4	9.0
Nominal	15.2	12.9	8.1	11.2	13.9
Real Gross Private Domestic Product	5.0	3.1	-2.0	2.7	4.3

Note: The index of hours worked appears to be increasing 2.6% at annual rates in the first quarter, suggesting that productivity remains unchanged. Industrial production is expected to decline in February but still increased 6.8% at annual rates during the first quarter. Thus, the industrial production index continues to overestimate conditions at the present time. Since many financial analysts use industrial production in their evaluation of the performance of industries, their evaluation may be overstating profit prospects for 1981.

Monthly Statistical Highlights
for February 1981

Personal income, +0.3%; personal outlays, +1.0%; savings rate, 4.0%; retail sales, +1.1%; automobile sales, 9.9 million; industrial production, -0.3%; housing starts, -7.8%; housing permits, -4.4%; construction expenditures, -0.4%; business inventories, +1.2%; orders for durable goods, +1.4; orders for nondefense capital goods, -4.8%; CPI, 1.0%; merchandise trade balances (new basis), -$2.56 billion; leading indicators, +0.3%; M1-B, 3.5%; M2, 10.0%.

Monthly Statistical Highlights
for March 1981

Payroll employment, +49,000; index of hours worked, +0.1%; household employment, -30,000; unemployment rate, 7.6%; personal income, +0.5%; personal outlays, +0.4%; personal savings, 4.1%; retail sales, 0.3%; automobile sales, 9.5 million; industrial production, -0.2%; housing starts, -5.1%; housing permits, -3.8%;

construction expenditures, -1.1%; business inventories, +0.5%; orders for durable goods, +2.3%; orders for nondefense capital goods, +1.7%; CPI, +1.1%; PPI, +1.2%; agricultural prices, -0.8%; merchandise trade balances (new basis), -$2.06 billion; leading indicators, +0.4%; M1-B, +5.9%; M2, 9.1%.

A Short Evaluation of the Reagan Program

The Reagan proposals probably should be considered in five segments: the rational and magnitude of the budget cuts, the timing and impact of the tax cuts, regulatory reform, monetary policy, and the consistency of the program as expressed in the economic forecast which accompanies it. Little need be said about the regulatory reform and monetary conditions. In general, a review structure will be initiated to insure that regulations meet cost effective criteria. All programs will be reviewed by the Office of Management and Budget. Hopefully, such a program will improve the management of regulatory authorities over time.

Monetary policy is expected to be consistent with the aims of the remainder of the program. In addition, policy is expected to be more predictable than in the past, although the President acknowledges the independent stature of the Federal Reserve. The report clearly states that the growth of monetary aggregates should be reduced by 50% from its 1980 growth levels by 1986. However, nominal GNP is expected to slow only from an estimated gain of 11.1% in 1981 to 9.3% in 1986. Unless dramatic slack in the utilization of available money existed in 1980 (when the velocity of M1-B grew 2.5% and the velocity of M2 was unchanged), the dramatic slowing in monetary targets is inconsistent with the more moderate slowing in nominal GNP. For reasons to be enunciated later, this inconsistency may be resolved by increasing the expansion of monetary aggregates.

The basic philosophy underlying the budget cuts is to dramatically increase the expansion of defense, preserve the integrity of the seven social safety net programs (including the social security, medicaid, veterans, rent subsidies, food stamps, and aid to families with dependent children programs). Because many of these programs are adjusted for cost of living as determined by the consumer price index, growth in the social safety net programs depend critically upon CPI projections. The proposals also acknowledge the necessity to pay market rates of interest. Again, reductions in inflation lead to reduced interest rates that lead to lower estimates of interest payments. Thus, a program which increases government debt by $125 billion between FY 1981 and FY 1984, an increase of almost 20% in the federal debt held by individuals, is expected to increase interest payments by only 4%.

The remaining budget category is presumed to be dispensable programs. Some of these programs are dispensable because they can be supported by other sectors of the economy, e.g. aid to the humanities, many state and local activities, and many manpower training programs. Other programs are viewed as not being cost effective, e.g. fixed rail transportation, development of the northeast corridor, and conrail. Other programs are assumed to provide services that can be appropriately evaluated by the market place, e.g. the post office subsidy, internal waterway policing and general aviation. In nominal terms, expenditures in this dispensable category are projected to decline by 26.5% between FY 1981 and FY 1984. After adjustment for inflation, the dispensable programs will be halved.

A substantial number of supply-oriented expenditures will be stretched out or eliminated by the budget cuts. Significant research efforts in the Department of Defense, the Department of Energy, and the National Science Foundation will be curtailed. Moreover, construction of social capital, such as highways, airports, port facilities, and water facilities will be delayed. Financing for sewage disposal facilities will be curtailed, although no mention is made about whether Environment Protection Agency regulations requiring clean water standards will be adjusted.

Three significant proposals will alter the value added provided by federal government. First, employees in defense will remain at 936,000 civilian jobs. In the Carter budget they were scheduled to be reduced by 20,000 by 1983. The military also will be larger than the Carter plan, rising by 34,000 to 2,120,000 by October 1982.

Second, employment in nondefense is expected to decline from 1,152,000 in 1981 to 1,053,000 in 1986, at the rate of 20,000 per year.

Third, the comparability pay formulas are expected to be changed to reflect the higher benefits provided in the federal government and the greater job security available in the federal government. This job security adjustment will become effective in October 1981, lowering the projected pay increase to only 4.8%. In subsequent years, reduced inflation is expected to restrain wages to 7% in fiscal years 1982 through 1984 before declining to a 6% rate of gain in 1986. Military pay is expected to rise substantially more significantly in the early years. Unfortunately, the 12.3% increase proposed by October of 1981 already appears to be inappropriate. The subsequent proposal for a special 5.3% increase in July and the 9.1% base proposal in October 1981 will lead to nearly a 15% boost in military pay. In 1982, the pay scale exceeds those for civilians by 2 percentage points. In 1983 the differential is slightly less than 1 percentage point. By 1984, however, no discrepancy persists.

Whether or not the Congress will roll back programs sufficiently to generate outlays of $695.5 billion in fiscal year 1982 remains to be seen. Such a roll back would be more than $30 billion below the expenditures assumed in our February forecast. Prevailing sentiment is in favor of a substantial portion of the budget reductions. Without making any judgments concerning individual programs, we currently are assuming that expenditures on an NIA basis will be $715 billion in FY 1982. We are assuming that expenditures on an NIA basis in FY 1981, half of which is already completed, will average $660 billion. (This latter is only $2 billion below our previous forecast values).

Even if all budget proposals are enacted, the President's claim that the budget can be balanced depends crucially upon the CPI estimates in subsequent years.

The tax proposals contained few surprises, except the phasing in of a 10-5-3 depreciation program. Indeed, our forecast anticipated the July 1 beginning date for a Kemp-Roth tax reduction and for the desire to maintain the Maxi-tax at 50% for earned income. However, Congress may delay the tax cuts until 1982. While such a delay undoubtedly would lead to relatively weak consumer spending in the second and third quarters of 1981, the positive impact of a delay on the credit markets would be significant. We have not yet assumed that such a delay will occur.

Our forecast assumed that the "Senate Finance" Depreciation Bill would be proposed. Instead, the 10-5-3 program proposed by the President is to be phased in over a five year period. As a result, revenue loss in fiscal years 1981 and 1982 are $16 billion and $9 billion less than assumed in our forecast. On the other hand, investments are expected to be subject to the new guidelines beginning in January 1981. The three year time horizon and the fifteen year audit-free real estate categories (for rented commercial facilities) occur immediately. Gains for the five year, ten year, and eighteen year time horizons are gradually increased for investments made in

1981. While some advantages may occur for those who delay investment in these age categories, the timing distortions are not significant. Thus, the investment stimulus from the 10-5-3 package is larger than from the Senate Finance proposals. These positive investment effects should be apparent by the beginning of 1982.

Because the 10-5-3 program distorts the economic age of capital, it reduces the efficient allocation of investment goods. In particular, owner-occupied facilities and very durable utility investments receive greater than normal economic advantage. The investment tax credit also is increased for five year lives to 10% and for three year lives to six percent from the 6 2/3 and 3 1/3 percentages that previously applied.

The President's program creates significant forecast changes because it envisages a more significant reduction in government expenditures than we had anticipated. As a result, our estimates of the government deficit for calendar year 1981 should be reduced by $10 billion. In calendar 1982, the projected deficits will be nearly $40 billion below those contained in our forecast. Of course, these changes in borrowing needs leads to lower interest rates projections, to lower money expansion, and less inflation than we had previously expected.

Despite these concessions to the Reagan package, the forecast accompanying the package shows areas of significant inconsistency. This discrepancy between changes in the growth of monetary targets and changes in the growth of nominal GNP already has been mentioned. The vulnerability of the projections to inflationary estimates, especially the consumer price index, also has been emphasized. Not only is the CPI expected to slow sharply, but changes in the CPI are expected to be less than changes in the GNP deflator in 1983 through 1986. This permits corporate profits to expand more rapidly than GNP even as wages and government entitlements are lagging behind GNP expansion. Thus, government deficits are reduced by extremely favorable changes in inflation and the composition of income.

The surprising speed of reductions in inflationary pressures already has been widely criticized. The administration's answer is that reductions in inflationary expectations will lead to rapid reductions in inflationary pressures. All evidence suggests that prevailing contract rigidities prevent a rapid improvement in inflation. (The claim that price expectations were dramatically altered in Germany during 1923 is not relevant. Clearly, that hyperinflation destroyed all financial contracts, thereby eliminating all contractual rigidities prior to the change in government policies).

That the program is unlikely to meet its budgetary objectives even if enacted in full can only mitigate against favorable expectations.

The administration forecasts an average 8.9% for 91 day treasury bills in 1982 while the futures market is expecting 11.5% for that same period. Moreover, the futures market has raised its interest rate anticipations by 40 basis points since the program was announced. (I believe that futures market is grossly overestimating treasury bill rates for 1982. However, as a barometer of expectations, they clearly do not support the administration's claims).

In summary, the actual program that will be initiated after Congress trims the budget reductions and tampers with the tax proposals, will be slightly stimulative. However, the program will have less near-term stimulus than anticipated in our forecast. Thus, interest rates, inflation, budget deficits, nominal GNP, and real GNP, all should be slightly reduced for 1982 from our February forecast.

COMMENTARY

Employment

The previous discrepancy between payroll and household measures of employment continued to narrow in February. Household employment expanded 231,000 despite a 122,000 decline in agricultural employment. At the same time, payroll employment was increasing only 51,000. These figures also suggest that seasonal factors are continuing to distort employment in the winter months. Payroll employment, which is more weather sensitive than the household measures of employment rose sharply after seasonal adjustment in January but then slowed sharply in February. Changes in non agricultural household employment showed more uniform changes in the two months.

Labor force participation of men 20+ continued to decline in February despite modest gains in employment. In the last year, participation in this group has declined by 1.1%. Participation rates of females 20+ rose modestly and have increased 1.2% in the last year. In general, the labor force activities of all groups are consistent with the changes in employment opportunities they experienced in the last year.

Most of the weakness in payroll employment was in construction, which declined by 108,000. The greatest area of growth was in retail trade, showing a gain of 87,000 jobs. However, a decline of 0.7% in the index of hours worked and an unusually sharp 0.6 hours decline in the manufacturing workweek suggest that some weakness may develop ahead. (The employment report mentioned adverse weather in the midwest and southeast, but the only bad weather was the first noticeable precipitation in several months during the survey week). The hourly earnings index slowed to a 9.5% gain over previous year levels, although non manufacturing wages continue to lead all wage increases.

Personal Income

Because of the sharp decline in the workweek during February, wage and salary income is expected to show no growth in that month. While interest income and transfer payments should contribute about $6 billion to personal income, total gains in personal income should not exceed $8 billion. Since personal outlays are expected to grow by nearly 1% in February, the personal savings rate should fall to 4% in the month. Since little growth in employment is expected during the next few months, this means that consumer activity will not be able to exceed inflation during the spring quarter.

If the savings rate has again reached irreducible minimums, the sharp rebound in auto sales that was experienced during the beginning of an aggressive rebate program will not persist beyond the promotion period. While auto sales probably approached 10 million in February and may average more than 9.5 million in March, this suggests that they could fall noticeably in the spring. High gasoline prices will insure some growth in the dollar value of nondurable sales through the spring, but no inflation adjusted gains are contemplated.

Construction

Housing appears to have benefitted from a backlog of committed mortgage funds. In January, starts increased despite mortgage rates that approached 15%. However, this appears to have been in response to strong sales in November and December for single family homes and by strong multi-family subsidies. The used home market, which had rebounded to a sales rate of 3.3 million in September, slumped to a 2.3 million in February. Sharp decreases in single family starts soon should follow. Indeed, the sharp February slump in construction payrolls suggests that construction expenditures probably declined in February.

Faulty seasonals probably accounted for the sharp increase in construction expenditures on nonresidential and public construction in January. Both construction sectors are expected to decline noticeably in the next few months. In the last three months, the implicit construction deflator has increased at less than a 6% annual rate. Residential prices appear to be largely responsible for this slowing of construction inflation. This slowing in housing inflation should continue through the spring.

Business Activity

Shipments of nondefense capital goods jumped 2.6% in January. This gain was especially surprising as orders for nondefense capital goods had fallen below shipments during the preceding five months. In January, however, orders in that category jumped sharply. However, decreases in orders for defense equipment, which followed two months of sharp gain, and weakness in steel orders following a price increase, led to declines in total orders for durable goods. This weakness appears to be temporary, although some reductions in orders for nondefense capital goods should be expected following the January surge.

After three months of virtually no growth, manufacturing inventories surged by 1.9% in January. Apparently, much of this increase was the result of activity on defense equipment and the purchase of imported goods. More moderate gains should reappear in subsequent months. Nevertheless, some inventory problems are beginning to develop in basic materials, especially steel, in addition to the continuing problems in the automobile industry.

Prices

Continued moderation in food inflation has caused us to significantly lower our estimates of agricultural prices for most of 1981. However, much of the price weakness appears to be caused by unusually rapid slaughtering of animals. Therefore, sharp increases in meat prices still are anticipated during the barbecue season and late in 1981. Decontrol of domestic oil prices influenced the industrial commodities index for February and will have a noticeable impact upon the IVA for the first quarter. However, prices for finished petroleum products will not show the impact of decontrol until March and April. Thus, the period of greatest price inflation should develop about that time. If energy inflation moderates and agricultural inflation does not intensify too rapidly, PPI changes during the summer could slow to a 7-8% annual rate.

Miscellaneous

The merchandise trade deficit was surprisingly high in January as oil imports continued to accelerate. These imports were generated by attempts to procure supplies before the December OPEC price meetings rather than by any increase in domestic demand. As a result, the petroleum surge should be temporary. Also, problems with barge transportation on the Mississippi river reduced agricultural exports. While some agricultural sales are being lost because the dollar has strengthened noticeably, some recovery in foreign sales of agricultural products should develop in the next few months. Overall, the surprisingly strong value of the dollar should lead to greater merchandise trade deficits than had previously been anticipated.

The 37.9% increase in the price of domestic crude petroleum will be distorting the leading indicators for the next few months. Sensitive commodity prices enter the leading indicators with a moving average having weights of 1, 2, 2, and 1 in the current and three preceding months. Crude petroleum accounts for 25% of these sensitive prices. Thus, decontrol will cause sensitive prices to contribute a positive 0.4% to the index in February. The contribution will rise to almost 1.0% in March. In May and June the process will be reversed.

Financial Markets

The monetary base has grown very little between November and February. Now that rising gasoline prices appear to be increasing the demand for currency, some acceleration in the monetary base is being generated for that purpose. Excluding this factor, monetary policy remains restrictive. In January, tight monetary policy had little effect upon economic activity, which expanded more than 18% at annual rates according to our estimates. This restrictive monetary policy is why interest rates did not show their normal seasonal decline, except at the long end of the maturity structure, in January. This failure of short-term rates to decline caused a February relapse in long-term bond prices. However, the economy is beginning to weaken noticeably. This reduction in demand, rather than any noticeable shift in Federal Reserve policy, accounted for the recent sharp drop in short-term interest rates. (The rates on treasury bills did not decline, as foreign central banks were selling their treasury bills to acquire dollars to be used to defend the values of their currencies).

Even with the developing acceleration of energy inflation, a significant improvement in the value of long-term debt instruments is expected in the next few weeks. More sustainable gains are not expected until the heavy borrowing needs of the federal government are met in July. While rigid Federal Reserve restraints may cause some short-term interest rates to exceed forecasted values through much of 1981, most interest rates should trend downward throughout the year. The combined influences of a weakening economy and reduced inflationary pressures suggest that the government's borrowing needs will merely arrest an improving credit market position rather than reverse a developing downward trend.

Stock Market

According to our outlook, genuine profits should be under some downward pressure through the first half of 1981. While interest rates should be trending downward, this favorable trend merely will be offsetting the unfavorable performance of profits. As a result, little movement in equity prices should be expected. In the second half of 1981, however, genuine profits should be rising rapidly in response to reduced inflationary pressures and improved tax treatment on accelerated depreciation. In addition, interest rates should continue to move downward, albiet very grudgingly. Thus, a price breakout above 1,000 is expected during the second quarter. A Dow Jones index in excess of 1,100 appears very likely before the end of 1981.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	90384	90384	123.7	123.7	97180	97180	7.4	7.4	255.4	255.4
October	90710	90710	124.5	124.5	97206	97206	7.6	7.6	257.9	257.9
November	90917	90961	125.2	125.2	97339	97339	7.5	7.5	260.7	260.9
December	91122	91116	125.7	125.5	97282	97282	7.4	7.4	261.6	261.6
January 1981	91216	91490	125.9	126.6	97443	97696	7.5	7.4	263.5	264.3
February	91295	91543	125.8	127.0	97552	97805	7.5	7.5	265.5	266.1
March	91355	91602	125.8	127.1	97640	97775	7.6	7.6	267.4	268.0
April	91426	91637	125.6	127.0	97816	97842	7.6	7.7	269.4	269.7
May	91484	91693	125.6	126.9	97924	97903	7.6	7.7	271.5	271.6
June	91542	91743	125.7	126.9	98032	98061	7.8	7.9	273.5	273.8
July	91692	91879	125.9	127.2	98165	98147	7.8	7.9	275.5	275.9
August	91833	92015	126.1	127.8	98331	98342	7.7	7.9	277.4	278.2
September	91974	92147	126.4	128.2	98502	98496	7.7	7.8	279.4	280.1
October	92148	92372	126.6	128.5	98743	98775	7.7	7.7	281.6	282.0
November	92339	92546	126.8	128.8	98903	98945	7.6	7.7	283.7	284.1
December	92522	92807	127.1	129.2	99167	99213	7.5	7.6	285.9	286.3

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	2.206	2.206	1.357	1.357	116.8	116.8	1.859	1.859	1.742	1.742
October	2.235	2.234	1.382	1.382	105.3	102.8	1.881	1.880	1.776	1.777
November	2.260	2.257	1.400	1.400	102.3	96.9	1.900	1.897	1.798	1.800
December	2.282	2.277	1.413	1.411	112.0	98.7	1.916	1.913	1.804	1.814
January 1981	2.291	2.298	1.424	1.431	95.2	88.1	1.925	1.927	1.830	1.839
February	2.310	2.325	1.435	1.450	98.5	85.6	1.939	1.949	1.841	1.863
March	2.328	2.345	1.445	1.461	99.4	88.3	1.955	1.962	1.856	1.874
April	2.343	2.361	1.454	1.470	93.1	90.3	1.968	1.974	1.875	1.884
May	2.363	2.380	1.463	1.478	91.5	90.1	1.983	1.988	1.892	1.898
June	2.384	2.402	1.473	1.488	90.2	90.4	1.999	2.004	1.909	1.914
July	2.422	2.440	1.486	1.504	137.4	133.9	2.062	2.067	1.925	1.933
August	2.445	2.471	1.499	1.522	136.1	130.8	2.079	2.092	1.943	1.961
September	2.468	2.493	1.513	1.535	132.1	126.5	2.098	2.108	1.966	1.982
October	2.496	2.521	1.532	1.555	134.2	126.8	2.119	2.131	1.985	2.004
November	2.518	2.545	1.547	1.572	131.1	128.7	2.135	2.148	2.004	2.019
December	2.540	2.569	1.563	1.589	129.8	124.7	2.152	2.165	2.022	2.040

Fore. = February Forecast
C.E. = Current Expectations

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	80.09	80.09	11.17	11.17	8.5	8.5	54.22	54.22	14.70	14.70
October	80.61	80.61	11.26	11.26	9.2	9.2	55.02	55.02	14.33	14.33
November	81.93	82.13	11.72	11.72	9.3	9.3	55.38	55.61	14.84	14.80
December	80.83	82.36	11.88	11.95	8.9	8.9	55.21	56.18	13.74	14.24
January 1981	82.33	84.01	11.95	12.12	9.2	9.6	55.95	57.07	14.43	14.82
February	82.64	84.29	11.99	12.20	9.0	9.2	56.29	57.69	14.36	14.40
March	83.49	85.09	12.01	12.16	9.1	9.4	56.72	57.89	14.76	15.04
April	83.92	84.77	11.95	12.20	9.1	9.0	57.14	57.99	14.83	14.58
May	84.77	85.69	11.91	12.25	9.2	9.2	57.79	58.37	15.07	15.07
June	85.60	86.07	12.06	12.36	9.2	9.3	58.40	59.02	15.14	15.31
July	86.96	87.96	12.18	12.42	9.4	9.5	59.13	59.72	15.65	15.82
August	87.17	89.66	12.28	12.53	9.3	9.5	59.41	60.86	15.93	16.27
September	87.96	90.04	12.22	12.50	9.5	9.6	58.96	60.73	16.73	16.81
October	89.16	91.49	12.47	12.71	9.6	9.8	59.65	61.44	17.04	17.34
November	90.78	92.48	12.62	12.80	9.8	9.9	60.67	62.03	17.49	17.65
December	92.88	94.28	12.95	13.04	9.9	10.0	62.16	63.31	17.77	17.13

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.
September 1980	144.1	144.1	76.7	76.7
October	146.8	146.9	78.1	78.1
November	149.2	149.4	79.3	79.3
December	150.7	150.9	79.8	79.7
January 1981	150.9	151.8	79.6	80.0
February	150.4	152.3	79.0	80.0
March	149.0	152.6	77.9	79.9
April	148.2	152.3	77.0	79.4
May	147.0	152.0	75.9	79.0
June	146.1	152.1	75.1	78.8
July	148.5	153.1	76.4	79.2
August	150.6	154.7	77.5	79.9
September	154.1	155.4	79.5	80.1
October	156.3	156.6	80.6	80.6
November	157.5	158.0	81.1	81.2
December	158.5	159.6	81.4	82.0

Fore. = February Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	1.541	1.482	1.059	1.032	1.564	1.564	223.7	223.7	99.7	99.7
October	1.557	1.519	1.030	1.009	1.333	1.333	226.2	226.1	99.9	99.9
November	1.563	1.550	1.012	1.019	1.355	1.355	231.6	231.6	101.4	101.3
December	1.548	1.532	0.947	0.971	1.233	1.235	241.6	242.4	105.0	105.3
January 1981	1.403	1.585	0.823	0.941	1.194	1.213	241.5	255.6	104.2	110.5
February	1.316	1.462	0.782	0.862	1.156	1.176	237.3	255.2	101.8	109.8
March	1.157	1.388	0.780	0.814	0.978	1.143	234.7	253.0	100.0	108.1
April	1.237	1.318	0.823	0.776	1.062	1.096	234.6	251.2	99.2	106.4
May	1.309	1.342	0.859	0.791	1.143	1.153	234.5	246.8	98.5	103.9
June	1.483	1.385	0.896	0.823	1.302	1.192	237.8	247.7	99.2	103.4
July	1.443	1.394	0.933	0.859	1.267	1.242	243.8	249.8	101.1	103.7
August	1.473	1.451	0.976	0.892	1.294	1.301	249.6	255.1	102.8	105.0
September	1.470	1.513	0.971	0.943	1.290	1.342	255.5	259.0	103.7	105.9
October	1.462	1.516	0.975	0.991	1.279	1.316	258.3	263.7	104.9	107.1
November	1.473	1.559	0.979	1.016	1.292	1.369	260.3	267.5	105.0	108.0
December	1.489	1.751	0.983	1.205	1.348	1.508	261.0	270.6	104.5	108.5

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	83.5	83.5	55.8	55.8	84.4	84.4
October	83.7	83.6	55.1	55.1	87.4	87.4
November	84.1	84.2	53.7	53.7	93.7	93.7
December	87.5	88.0	57.1	58.4	97.0	96.0
January 1981	87.0	91.3	57.0	63.7	97.5	100.7
February	86.5	90.1	56.2	61.5	94.6	103.6
March	86.2	89.7	56.8	60.4	91.7	102.9
April	87.6	89.9	57.5	59.7	89.5	101.6
May	89.0	90.2	58.3	59.5	87.2	97.1
June	90.5	90.8	59.1	59.8	88.2	96.2
July	91.6	92.3	59.5	60.5	92.7	97.0
August	92.8	94.6	59.9	61.4	96.9	99.1
September	94.0	96.1	60.2	60.9	101.3	102.0
October	95.3	97.7	61.0	61.9	102.0	104.1
November	96.2	98.9	61.8	63.1	102.3	105.5
December	97.1	100.2	61.7	62.8	102.2	107.6

Fore. = February Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	243.6	243.6	78.96	78.96	20.86	20.86	21.88	21.88
October	242.9	242.9	80.69	80.69	20.62	20.62	21.84	21.84
November	244.1	244.1	81.05	81.05	21.85	21.85	21.86	21.86
December	246.0	244.5	82.47	82.65	21.63	21.67	21.39	21.77
January 1981	248.5	249.0	80.73	81.11	22.14	23.92	21.86	22.33
February	249.1	250.8	80.26	82.27	22.43	22.76	22.05	22.65
March	249.5	252.3	81.15	84.15	22.40	23.15	22.26	22.89
April	250.2	253.6	82.62	83.65	22.68	22.92	22.32	23.06
May	252.5	254.2	83.69	82.11	22.94	23.43	22.46	23.15
June	253.8	254.7	85.14	84.93	23.45	23.87	22.63	23.42
July	256.1	256.1	84.43	86.13	23.27	24.43	22.95	23.44
August	257.5	257.8	85.78	86.05	23.62	24.40	23.20	23.61
September	258.6	259.2	87.02	88.43	23.94	24.16	23.46	23.90
October	259.9	260.9	89.16	89.21	24.26	25.31	23.68	24.14
November	262.4	263.1	90.45	91.33	25.03	25.72	23.95	24.20
December	264.5	265.3	91.95	93.62	24.92	26.05	24.26	24.65

	Business Inventories		Defense Shipments	
	Fore.	C.E.	Fore.	C.E.
September 1980	454.5	454.5	3.80	3.80
October	456.5	456.5	3.78	3.78
November	459.5	458.0	3.86	3.86
December	462.1	457.0	3.76	3.73
January 1981	465.5	462.0	3.86	3.52
February	468.3	465.3	3.95	3.81
March	470.4	467.5	4.04	3.95
April	472.9	471.2	4.15	4.11
May	476.5	474.5	4.21	4.25
June	480.9	478.3	4.20	4.36
July	483.1	481.9	4.26	4.30
August	487.4	485.3	4.33	4.39
September	490.8	489.2	4.44	4.52
October	493.2	493.1	4.53	4.63
November	498.3	498.0	4.58	4.65
December	501.7	502.2	4.61	4.74

Fore. = February Forecast
C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	251.7	251.7	248.9	251.4	278.2	278.8	261	261	42.3	42.3
October	253.9	253.9	252.2	253.4	281.2	281.2	260	260	44.7	46.5
November	256.2	256.2	253.2	255.3	282.7	282.7	264	264	40.3	43.2
December	258.4	258.4	254.7	256.9	286.1	286.1	265	265	41.6	44.7
January 1981	260.9	260.5	257.2	259.8	288.9	289.9	265	263	37.3	46.3
February	264.0	263.1	260.5	262.4	292.3	293.1	264	262	40.4	39.6
March	267.1	266.0	263.3	265.5	295.9	296.2	267	260	47.7	45.7
April	270.0	268.7	266.1	268.4	298.8	299.1	272	264	53.2	50.8
May	272.9	271.3	269.3	270.7	302.5	302.8	275	269	49.9	49.6
June	275.8	274.5	272.4	273.8	306.2	306.5	274	272	49.3	49.3
July	277.3	276.9	274.8	276.1	308.5	308.9	276	275	44.8	45.4
August	278.6	278.2	276.3	277.8	309.3	310.4	278	276	45.2	48.9
September	279.9	279.5	277.8	279.7	310.2	311.2	281	275	40.2	43.1
October	282.4	282.3	280.2	281.6	313.9	314.3	278	278	40.7	36.4
November	284.9	285.0	282.9	284.3	315.4	315.8	281	282	38.9	38.5
December	287.3	287.5	285.5	286.6	316.9	317.5	285	286	39.8	41.1

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	-764	-764	135.0	134.9	2675	2675	1482	1482	1.8051	1.805
October	-972	-972	136.0	135.7	2713	2706	1486	1483	1.8259	1.825
November	-788	-788	137.6	137.7	2748	2738	1495	1490	1.8386	1.837
December	-2056	-2056	136.5	136.6	2762	2751	1489	1486	1.8550	1.851
January 1981	-1483	-4372	135.3	136.1	2795	2790	1497	1495	1.8673	1.866
February	-1526	-1423	134.7	135.4	2809	2823	1495	1500	1.8792	1.882
March	-1694	-977	132.9	134.6	2825	2851	1492	1500	1.8932	1.900
April	-1842	-1891	133.4	134.9	2848	2868	1491	1499	1.9106	1.913
May	-1993	-2265	135.1	135.6	2870	2882	1486	1494	1.9309	1.929
June	-1971	-2124	136.0	136.3	2893	2911	1487	1497	1.9455	1.944
July	-1024	-1768	138.2	138.0	2936	2933	1498	1498	1.9605	1.958
August	-1683	-2243	138.3	138.5	2972	2976	1506	1512	1.9736	1.968
September	-1038	-2126	139.9	139.7	3007	3009	1513	1521	1.9873	1.977
October	-1381	-1793	140.3	140.0	3042	3054	1512	1529	2.0116	1.996
November	-1605	-1886	140.8	140.5	3075	3086	1522	1534	2.0203	2.011
December	-1416	-1742	141.9	141.6	3114	3116	1533	1539	2.0314	2.024

Fore. = February Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	159.7	159.6	408.0	408.0	1644.4	1644.4	10.87	10.87	10.57	10.57
October	160.9	160.5	412.0	412.0	1656.5	1656.5	12.81	12.81	11.63	11.63
November	162.9	162.6	415.0	415.0	1671.0	1670.8	15.85	15.85	13.50	13.50
December	162.9	162.5	411.9	411.9	1674.8	1673.4	18.90	18.90	14.64	14.64
January 1981	163.3	162.5	416.5	416.1	1682.7	1681.9	18.95	19.05	13.97	14.08
February	164.0	163.0	419.1	417.3	1695.8	1695.3	16.49	15.93	13.01	14.05
March	164.7	163.8	421.7	419.3	1708.9	1707.7	14.06	15.05	11.99	13.18
April	165.8	164.6	422.8	421.4	1720.4	1719.6	13.54	14.26	11.62	12.86
May	166.8	165.5	423.8	422.9	1732.3	1730.1	13.02	13.72	11.50	12.43
June	167.8	166.5	424.9	425.4	1744.5	1743.7	12.55	13.36	11.25	12.07
July	169.5	167.7	428.5	428.5	1762.7	1759.9	12.41	13.52	10.82	11.68
August	170.9	168.5	432.9	430.5	1784.0	1772.5	12.53	13.35	10.65	11.75
September	172.3	169.8	437.2	434.7	1806.3	1794.3	12.65	13.57	10.81	11.79
October	173.9	171.0	441.5	437.8	1825.5	1811.6	12.89	13.36	11.02	11.52
November	175.5	172.1	445.5	440.6	1846.9	1827.7	13.05	13.09	11.25	11.27
December	177.2	173.3	449.2	444.2	1868.5	1847.2	13.19	13.02	11.53	11.30

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
September 1980	12.02	12.02	8.94	8.94	10.97	10.97	11.29	11.29	12.23	12.23
October	12.31	12.31	9.11	9.11	12.52	12.52	12.94	12.94	13.79	13.79
November	12.97	12.97	9.56	9.56	15.18	15.18	15.68	15.68	16.06	16.06
December	13.21	13.21	10.11	10.11	18.07	18.07	18.65	18.65	20.35	20.35
January 1981	13.05	12.81	10.05	9.85	17.93	16.58	18.32	17.19	20.35	20.09
February	12.33	13.35	9.62	10.21	15.98	15.49	16.39	16.14	18.86	19.16
March	12.06	13.05	9.41	10.18	14.02	14.83	14.51	15.39	16.92	17.63
April	12.25	12.43	9.56	9.67	13.65	14.31	14.02	15.85	16.31	17.29
May	12.34	12.36	9.75	9.58	13.06	13.89	13.56	14.41	15.49	16.55
June	12.28	12.21	9.64	9.40	12.72	13.41	13.09	14.05	15.08	16.13
July	12.06	12.09	9.41	9.07	12.75	13.65	13.02	14.15	14.67	15.75
August	11.83	12.36	9.17	9.33	12.66	13.39	12.92	14.01	14.22	15.75
September	11.93	12.64	9.19	9.67	12.85	13.75	13.14	14.23	14.05	15.75
October	12.02	12.61	9.20	9.71	12.97	13.53	13.29	14.10	14.37	15.63
November	12.10	12.25	9.26	9.53	13.23	13.40	13.68	13.92	14.89	15.48
December	12.17	12.02	9.31	9.32	13.45	13.29	13.95	13.68	15.43	15.22

Fore. = February Forecast
C.E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS
FOR MARCH

MARCH REBOUND INSUFFICIENT TO OFFSET FEBRUARY SLUGGISHNESS

Although the flash figures for GNP in the first quarter show a real increase of 5%, they contain construction and inventory figures only for January. They also rely heavily upon the personal consumption expenditures deflator for January. In February , construction expenditures declined $9.4 billion according to preliminary estimates. Construction may have increased only marginally in March if the index of hours worked in construction can be used as a guide for construction activity in that month. Manufacturing inventories slowed from a 1.6% gain in January to gains of only 1.1% in February. Moreover, the non-housing component of the CPI increased 1.4% in February following a gain of only 0.7% in January. All these figures strongly suggest that the flash estimates of GNP are overstating first quarter strength. Indeed, our estimates show a decline in inflation adjusted GNP during February, followed by only a modest rebound in March.

As we mentioned in our last Monthly Projections, seasonal adjustments may be overstating economic activity in January and subsequently understating activity in February. Seasonal factors also are difficult to gauge in March and April when Easter arrives unusually late, as it does this year. Adjusted for these seasonal problems, the economy appears to be trendless at the present time.

Consumption showed the greatest contribution to changes in economic activity during the first quarter, but this was accomplished by lowering the savings rate to less than 4%. The opportunities provided by automobile price rebates and the unanticipated surge in energy prices following the President's early decontrol announcement appear to be responsible for much of this consumer strength. In short, consumers do not wish to maintain a 4.0% savings rate. Therefore, they are expected to contribute little to economic activity during the second quarter.

Inventory investment also appears to have moved towards accumulation, following two consecutive quarters of liquidation. Strong consumer sales have led to orderly growth of inventories at the wholesale and retail level, but stocks are beginning to build for manufacturers. If the consumer backs away from the market

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place during the spring, unintended inventory investment could well develop.

Although seasonal factors distorted the degree of weakness in construction during February, the trend in housing activity now appears to be downward. Monthly sales of single family homes remain above 1980 levels, but the effective mortgage rate should threaten the 1980 peaks while actual housing prices are showing no appreciation. Despite potential demand for housing created by favorable demographic trends, this combination of rising financial costs and no price appreciation should stall homebuying intentions. Second quarter sales could easily duplicate the exceptional weakness that was experienced during the second quarter of 1980.

Finally, the trade picture is deteriorating noticeably under three fundamental pressures. First, rising oil prices have begun to be reflected in import figures. During 1980 oil imports fell twice as rapidly as oil consumption in the United States. While this ratio could persist, oil consumption is not expected to fall another 6% in 1981. Second, the exceptionally strong dollar and problems with large traffic on the Mississippi have led to slower exports than were previously anticipated. Third, recession in Europe has led to significant reductions in purchases of American exports. This export weakness is not expected to be reversed until late in 1981.

When all the pieces are put together, it appears that unintended inventory investments will not be sufficient to offset sluggish consumer activity and declining construction expenditures during the spring. A long strike in the coal industry also should begin to create declines in payroll employment and production as early as April. As we continue to anticipate that personal tax cuts will be effective by July 1, a modest rebound in consumer activity is anticipated for the summer months. A modest inventory runoff at that time might prevent interest rate pressures from intensifying during the summer months. Nevertheless, by the end of 1981 economic activity should be rebounding noticeably, interest rate pressures should again be intensifying, and inflationary pressures should remain near double-digit rates of gain.

Quarterly Profile of GNP

	1980-IV	1981-I	1981-II	1981-III	1981-IV	1982-I
Real	3.8	3.5	-2.1	1.3	4.7	4.8
Price	10.7	10.3	10.8	8.4	9.3	8.6
Nominal	14.9	14.1	8.4	9.9	14.5	13.8
Real Gross Private Dom. Product	5.0	5.0	-2.0	1.8	5.3	5.7

Note: The index of hours worked appears to be increasing 4.7% at annual rates during the first quarter. If our extimates of real GNP are accurate, this suggests that productivity once again is declining during the quarter. In manufacturing, however, the ratio of production workers to total employees has increased noticeably, suggesting that some productivity gains have developed in that sector. If industrial production increases modestly in March, as we expect, that index will show an increase of 5.8% at annual rates during the first quarter.

Monthly Statistical Highlights for March 1981

Personal income, +1.0%; personal outlays, +1.0%; savings rate, 4.0%; retail sales, +0.8%; automobile sales, 10.5 million; industrial production, +0.3%; housing starts, +4.1%; housing permits, -6.5%; construction expenditures, -0.9%; business inventories, +0.5%; orders for durable goods, +1.9%; orders for nondefense capital goods, +9.2%; CPI, +0.9%; merchandise trade balances (new basis), -$2.02 billion leading indicators,+1.1%; M1-B, 10.9%; M2, 14.3%.

Monthly Statistical Highlights for April 1981

Payroll employment, -92,000; index of hours worked, -0.5%; household employment, -116,000; unemployment rate, 7.5%; personal income, +0.7%; personal outlays, +0.3%; savings rate, 4.3%; retail sales, -0.8%; automobile sales, 9.2 million; industrial production, -0.5%; housing starts, -5.5%; housing permits, -5.0%; construction expenditures, -4.1%; business inventories, +0.8%; orders for durable goods, -0.3%; orders for nondefense capital goods, +1.2%; CPI, +1.1%; PPI, +1.1%; agricultural prices, +1.6%; merchandise trade balances (new basis), $2.55 billion; leading indicators, +0.1%; M1-B, +6.3%; M2, +8.1%.

COMMENTARY

Employment

Most of the lingering discrepancy between the more rapid growth in payroll employment and household measures of employment were eliminated by the March reports. In that month payroll employment grew only 1,000 while household employment, without the aid of any appreciable gains in agricultural employment, expanded 485,000. Of equal significance was the upward revision in payroll employment for February, where a preliminary estimate of a gain of 51,000 was increased to 163,000. Also, a preliminary estimate of a drop in the index of hours worked to 125.5 was revised to a more modest drop to 126.2.

While manufacturing employment declined, production workers in manufacturing increased. The manufacturing workweek also expanded modestly. The coal mining strike should eliminate more than one hundred thousand from mining employment during April. Of course, strike activity has no measurable impact upon estimates of household employment. Projected reductions in household employment are based upon the assessment that the sharp surge in employment for men 20+ during March overstated the true improvement in that category, thus, a modest April correction appears to be warranted.

Modest growth in payroll employment was confirmed by the diffusion index of employment for 172 industries. That index showed only 51.5% of industries experiencing employment gains. This is barely above recessionary levels. Finally, the hourly earnings index continued to show gains of 9.5% over previous year levels.

At the present time there is no evidence that wage inflation is receding. Indeed, our estimates suggest that unit labor costs probably increased near an 11% rate during the first quarter.

Personal Income and Outlays

The sharp upward revision in the index of hours worked led to a sharp expansion in wage and salary employment during February. In March, a modest expansion in hours worked is coupled with a gain of 0.8% in the hourly earnings index. As a result, wage and salary income is expected to expand by more than 1%. With growing interest income, personal income should expand by 1% in March. While auto price rebates are contributing to a significant expansion in durable goods activity in March, outlays for services should slow from an unusually brisk pace in February. As a result, total outlays should expand by 1%. This would leave the savings rate at the 4% level that was achieved in February. The lifting of the rebates in late March should lead to a significant weakening of auto sales (the ten days following the end of the rebate program showed domestic sales falling from an 8.7 million annual rate to a 5.1 million sales pace). With moderation in gas line prices, retail sales should fall noticeably in April. Some improvement from April levels should develop later in the spring, but consumer outlays cannot sustain the strong 15% annual rate of growth that was achieved during the winter.

Construction

A sharp decline in housing starts during February probably was partially initiated by unusual seasonal factors. If so, a modest rebound in starts should be expected in March. The hourly earnings index strongly suggests that construction activity stabilized in March following the February plunge. Moreover, some of the February weakness was caused by a sharp slump in multi-family activity. Because some subsidy programs reportedly were in disarray at that time, the multi-family slump may have been a temporary phenomenon. On the other hand, single family starts also are falling sharply. This is in response to a continued weakening in single family sales to the range of 487,000 in February. Inventories currently stand at nearly nine months of sales. Typically, builders view inventories in excess of nine months as excessive.

Adding to selling woes for housing during the spring is the hope that mortgage interest rates will peak and the reality that housing prices no longer are climbing. Indeed, the implicit construction deflator during the last five months has increased by less than 5% at annual rates. The implicit price deflator for residential construction has increased at only a 1% annual rate since October. The combined impact of no change in housing inflation and the hope that mortgage rates will fall should keep potential home buyers on the sidelines. As a result housing activity could slump to the lows attained in May, 1980.

A collapse in nonresidential construction during February may merely reflect faulty seasonals. Indeed, private nonresidential activity appears to be growing more rapidly than had been anticipated in our February forecast. Even public construction exceeds expectations at the present time. The trend of the Dodge report on construction contracts indicates that little growth in private nonresidential construction should occur during the spring. The confusion over budgetary changes may stall public construction at the same time (although construction could accelerate in that sector to exploit previously committed funds from the federal government.

Business Activity

Manufacturing inventories are beginning to surge following little change during the fourth quarter. As raw material prices were declining and energy prices only began to be felt at the manufacturing sector at the end of the first quarter, changes in inventory valuations are not sufficient to explain changes in inventory holdings at the manufacturing level. Because of unexpectedly strong sales, inventories at the wholesale and retail level are very modest at the present time. The auto rebate program also helped to diminish inventory holdings. Manufacturing already may be adjusting inventories during the second quarter, although anticipated weakness in consumer sales may prevent a full adjustment of business inventories until the third quarter.

Orders for nondefense capital goods followed a roller coaster pattern in January and February. A dramatic surge in January followed by an even more dramatic slump in February remains difficult to explain. More orderly and slightly higher levels of orders for nondefense capital goods are anticipated in March and beyond. Shipments of nondefense capital goods followed a more moderate swing. As manufacturing inventories continue to expand sharply despite a 5.7% gain in defense shipments during February, defense goods in process cannot explain much of the expansion in manufacturing inventories during February.

Prices

Just as food inflation appeared to be falling below our anticipations for 1981, the Department of Agriculture released another surprising report. According to their estimates, the hog population fell sharply in the last three months while breeder intentions are down at double-digit rates. If these numbers are accurate, then pork prices should move sharply higher in the months ahead. Moveover, farmers appear to be concerned about the possibility of a new drought in 1981. To minimize their vulnerability, they intend to plant fewer acres to corn and more acres to soybeans than profit relationships would normally suggest. If these planting intentions materialize, a sharp reduction in the hog population will be met by a continuing reduction in feedstocks. As a result of these conditions, we have increased our estimates of agricultural inflation for the second half of 1981.

The CPI remains below our previous intentions even as the PPI for finished goods is performing above previous expectations. The major reason for this discrepancy between these two price indices is the surprising stability in home prices. Unfortunately, this creates an inflationary Catch-22. If inflation as measured by the CPI remains moderate, interest rates will continue their downward trend. This will lead to some moderation in mortgage rate pressures. However, latent demographic demand for housing should lead to significant increases in effective housing demand once mortgage rates move noticeably downward. This, in turn, would increase the CPI, leading to increases in escalator clauses and a resurgence of inflation. Thus, the CPI appears to have a 10% floor at the present time.

Miscellaneous

Now that estimates of the merchandise trade deficit for February are in, the dramatic surge in that deficit during January no longer appears to be an aberration. Oil imports are beginning to increase while exports of foodstuffs and manufactured goods, especially to Europe, are showing no growth. While the trade deficit should improve significantly during March, the first quarter results clearly are below previous anticipations. The current account is in serious jeopardy of slipping back into the red. Political upheavals are preserving strength in the value of the dollar. However, any moderation of those upheavals should expose the dollar to some downward pressures.

A distortion generated by the 37% increase in the price of domestic crude petroleum during February will be apparent in the leading indicators for March. Coupled with a strong stock market, sharp increases in the money stock and a rebound in the workweek following a February slump, the leading indicators should rise sharply in that month. Notwithstanding this performance, we anticipate a decline in economic activity during the second quarter. This weakness should be apparent toward the end of April.

Financial Markets

Between the generation of our tables and the writing of this commentary the Federal Reserve hit the credit markets with a bombshell. For much of March, the federal funds rate had been trading in the 13-14% range. While money growth began to become excessive, expanding 10.9% for M1-B and 14.3% for M2 according to our estimates, most bond traders felt that the Federal Reserve was willing to lower its interest rate targets. Even this excessive money growth was explained as a one month aberration in the five month slowing of monetary aggregates. However, the recently released minutes of the open market committee show that the Federal Reserve had no desire to lower its interest rate targets. The bond market quickly realized that lower money growth and higher interest rates were in the offering. Short-term interest rates increased by more than a full percentage point.

Of greater interest is the fact that long-term interest rates rose more than twenty basis points. Indeed, some long-term government bonds established record lows. Two possible explanations can be presented for this market performance. First, the abrupt tightening required by the Federal Reserve to maintain its interest rate targets will lead to a liquidity squeeze. Such a squeeze will force borrowers to lengthen the maturity of their debt to minimize the renewed upward pressure of short-term interest rates. In short, the inverted yield curve is pulling long-term interest rates upward. Second, rising interest rates will lead to greater interest payments by the government than had been contained in the budget. Also, renewed upward pressures on interest rates will lead to financial conditions in some markets, such as the savings and loan industry, that will necessitate an early reversal of restrictive monetary policy.

Frankly, the second argument is less compelling than the first. However, unexpected changes in interest rates tend to lead to changes in economic activity. Thus, the market response to the minuted of the Federal Reserve's open market committed increases the likelihood of a construction and auto sales slump during the spring. After a period of unusually slow money growth (contrary to current anticipations by some of sharp growth in monetary aggregates during April), both short-term and long-term interest rates should begin to fall. Thus, the Federal Reserve bombshell reduces the likelihood that interest rates will establish another V pattern in 1981 similar to the 1980 interest rate shock. The April and May interest rate estimates should be raised while the April and May estimates of monetary aggregates should be reduced slightly. By July, however, interest rates should fall to projected levels and should show a smaller tendency to rise late in the year than has been incorporated in the projections.

Even without the Federal Reserve bombshell, credit markets would probably exhibit schizophrenic behavior in April. While economic activity should begin to weaken late in the month, most economic indicators will be reflecting strong activity for the previous month. Indeed, the leading indicators for March might prove to be almost as large a bombshell as the Federal Reserve minutes. However, the fundamentals are toward lower interest rates. These fundamentals should reassert their importance before the end of spring.

Stock Market

Rising economic activity, declining interest rates, and little change in the inventory valuations all encouraged stock prices to increase during the first quarter of 1981. Unfortunately, our estimates show that economic activity should be declining during the second quarter, inventory valuations will be increasing, and interest rates could rise slightly because of the uncertainty about Federal Reserve policy. In short, all the factors which argued for rising equity values during the first quarter are suggesting that equity values should fall during the spring. Moreover, significant buying resistance appears to develop soon after the Dow Jones exceeds 1,000. For these reasons, the next significant movement in the equity markets will be to the downside and may lead to declines approaching the 900 level on the Dow Jones. As economic weakness, interest rate shocks, and erosion of the quality of corporate profits all appear to be temporary, equity values again should rise in the second half of the year. A movement above 1,100 appears to be warranted before the end of 1981.

April 8, 1981

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1980	90710	90710	124.5	124.5	97206	97206	7.6	7.6	257.9	257.9
November	90917	90961	125.2	125.2	97339	97339	7.5	7.5	260.7	260.9
December	91122	91125	125.7	125.5	97282	97282	7.4	7.4	261.6	261.9
January 1981	91216	91481	125.9	126.8	97443	97696	7.5	7.4	263.5	264.4
February	91295	91644	125.8	126.2	97552	97927	7.5	7.3	265.5	266.3
March	91355	91645	125.8	126.5	97640	98412	7.6	7.3	267.4	268.5
April	91426	91553	125.6	125.9	97816	98296	7.6	7.5	269.4	269.9
May	91484	91549	125.6	125.6	97924	98274	7.6	7.7	271.5	271.9
June	91542	91623	125.7	126.0	98032	98401	7.8	7.7	273.5	273.6
July	91692	91704	125.9	126.2	98165	98499	7.8	7.8	275.5	275.5
August	91833	91823	126.1	126.5	98331	98705	7.7	7.8	277.4	277.7
September	91974	91942	126.4	126.9	98502	98845	7.7	7.8	279.4	279.7
October	92148	92116	126.6	127.4	98743	99038	7.7	7.7	281.6	281.6
November	92339	92342	126.8	128.0	98903	99297	7.6	7.6	283.7	283.5
December	92522	92569	127.1	128.5	99167	99591	7.5	7.5	285.9	285.6
January 1982	92643	92849	127.4	129.0	99361	99912	7.5	7.5	288.0	287.6

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1980	2.235	2.234	1.382	1.382	105.3	102.8	1.881	1.880	1.776	1.777
November	2.260	2.258	1.400	1.400	102.3	97.4	1.900	1.898	1.798	1.800
December	2.282	2.277	1.413	1.411	112.0	93.3	1.916	1.913	1.804	1.820
January 1981	2.291	2.299	1.424	1.432	95.2	86.1	1.925	1.930	1.830	1.844
February	2.310	2.314	1.435	1.439	98.5	75.8	1.939	1.943	1.841	1.867
March	2.328	2.338	1.445	1.455	99.4	77.4	1.955	1.963	1.856	1.886
April	2.343	2.354	1.454	1.463	93.1	85.3	1.968	1.976	1.875	1.891
May	2.363	2.371	1.463	1.472	91.5	87.9	1.983	1.989	1.892	1.902
June	2.384	2.395	1.473	1.487	90.2	93.6	1.999	2.009	1.909	1.916
July	2.422	2.435	1.486	1.503	137.4	131.7	2.062	2.069	1.925	1.938
August	2.445	2.457	1.499	1.517	136.1	129.2	2.079	2.086	1.943	1.957
September	2.468	2.479	1.513	1.531	132.1	128.1	2.098	2.103	1.966	1.975
October	2.496	2.506	1.532	1.550	134.2	129.5	2.119	2.124	1.985	1.995
November	2.518	2.530	1.547	1.565	131.1	130.1	2.135	2.143	2.004	2.013
December	2.540	2.554	1.563	1.581	129.8	130.6	2.152	2.162	2.022	2.032
January 1982	2.559	2.574	1.577	1.596	142.2	147.6	2.194	2.201	2.043	2.054

Fore. = February Forecast
C.E. = Current Expectations

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
October 1980	80.61	80.61	11.26	11.26	9.2	9.2	55.02	55.02	14.33	14.33
November	81.93	82.13	11.72	11.72	9.3	9.3	55.38	55.61	14.84	14.80
December	80.83	82.65	11.88	11.95	8.9	8.9	55.21	56.38	13.74	14.31
January 1981	82.33	85.08	11.95	12.48	9.2	9.7	55.95	57.21	14.43	15.39
February	82.64	85.83	11.99	12.42	9.0	10.5	56.29	57.78	14.36	15.63
March	83.49	86.53	12.01	12.36	9.1	10.5	56.72	58.43	14.76	15.70
April	83.92	85.86	11.95	12.39	9.1	9.2	57.14	58.65	14.83	14.82
May	84.77	86.12	11.91	12.43	9.2	9.0	57.79	59.15	15.07	14.54
June	85.60	86.64	12.06	12.46	9.2	8.9	58.40	59.78	15.14	14.40
July	86.96	88.13	12.18	12.54	9.4	9.3	59.13	60.48	15.65	15.11
August	87.17	89.07	12.28	12.59	9.3	9.5	59.41	60.99	15.93	15.49
September	87.96	89.87	12.22	12.55	9.5	9.6	58.96	61.62	16.73	15.70
October	89.16	90.84	12.47	12.48	9.6	10.1	59.65	61.69	17.04	16.67
November	90.78	91.74	12.62	12.63	9.8	10.3	60.67	62.06	17.49	17.05
December	92.88	92.60	12.95	12.89	9.9	10.3	62.16	62.71	17.77	17.00
Janauary 1982	93.71	93.68	13.05	12.85	9.9	10.5	62.71	63.35	17.95	17.48

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
October 1980	146.8	146.9	78.1	78.1
November	149.2	149.4	79.3	79.3
December	150.7	150.9	79.8	79.7
Janaury 1981	150.9	151.5	79.6	80.0
February	150.4	150.8	79.0	79.3
March	149.0	151.2	77.9	79.3
April	148.2	150.5	77.0	78.7
May	147.0	150.1	75.9	78.1
June	146.1	150.6	75.1	78.2
July	148.5	150.8	76.4	78.2
August	150.6	151.2	77.5	78.2
September	154.1	152.0	79.5	78.6
October	156.3	152.7	80.6	78.9
November	157.5	153.6	81.1	79.3
December	158.5	154.4	81.4	79.7
January 1982	160.2	155.3	82.1	80.0

Fore. = February Forecast
C. E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1980	1.557	1.519	1.030	1.009	1.333	1.333	226.2	228.8	99.9	101.9
November	1.563	1.550	1.012	1.019	1.355	1.355	231.6	235.8	101.4	104.7
December	1.548	1.535	0.947	0.974	1.233	1.235	241.6	247.4	105.0	109.4
January 1981	1.403	1.615	0.823	0.992	1.194	1.228	241.5	261.9	104.2	115.3
February	1.316	1.218	0.782	0.779	1.156	1.143	237.3	252.5	101.8	110.8
March	1.157	1.268	0.780	0.755	0.978	1.069	234.7	250.1	100.0	109.2
April	1.237	1.198	0.823	0.726	1.062	1.016	234.6	239.9	99.2	104.3
May	1.309	1.160	0.859	0.705	1.143	0.972	234.5	239.6	98.5	103.6
June	1.483	1.152	0.896	0.733	1.302	1.013	237.8	238.8	99.2	102.5
July	1.443	1.244	0.933	0.779	1.267	1.052	243.8	241.7	101.1	103.1
August	1.473	1.288	0.976	0.816	1.294	1.107	249.6	246.9	102.8	104.6
September	1.470	1.329	0.971	0.839	1.290	1.143	255.5	251.7	103.7	105.9
October	1.462	1.390	0.975	0.876	1.279	1.224	258.3	255.1	104.9	106.5
November	1.473	1.463	0.979	0.937	1.292	1.278	260.3	263.2	105.0	109.1
December	1.489	1.532	0.983	1.003	1.348	1.370	261.0	270.0	104.5	111.0
January 1982	1.623	1.645	1.088	1.106	1.471	1.483	265.3	278.5	105.4	113.6

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1980	83.7	84.6	55.1	55.3	87.4	89.2
November	84.1	85.2	53.7	53.6	93.7	97.0
December	87.5	89.0	57.1	58.2	97.0	100.2
January 1981	87.0	93.2	57.0	65.5	97.5	103.2
February	86.5	91.4	56.2	60.1	94.6	101.0
March	86.2	92.9	56.8	60.6	91.7	96.6
April	87.6	92.4	57.5	59.1	89.5	88.4
May	89.0	92.9	58.3	59.0	87.2	87.7
June	90.5	93.5	59.1	59.4	88.2	85.9
July	91.6	94.4	59.5	60.1	92.7	87.2
August	92.8	95.3	59.9	61.2	96.9	90.4
September	94.0	96.5	60.2	61.5	101.3	93.7
October	95.3	98.1	61.0	61.0	102.0	96.0
November	96.2	100.2	61.8	62.8	102.3	100.2
December	97.1	101.9	61.7	63.1	102.2	105.0
January 1982	98.1	104.3	62.0	63.5	105.2	110.7

Fore. = February Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
October 1980	242.9	242.9	80.69	80.69	20.62	20.62	21.84	21.84
November	244.1	244.1	81.05	81.05	21.85	21.85	21.86	21.86
December	246.0	244.5	82.47	82.65	21.63	21.67	21.39	21.77
January 1981	248.5	248.4	80.73	81.34	22.14	24.51	21.86	22.44
February	249.1	251.2	80.26	81.45	22.43	20.54	22.05	21.99
March	249.5	253.0	81.15	83.02	22.40	22.43	22.26	22.15
April	250.2	254.4	82.62	82.76	22.68	22.69	22.32	22.37
May	252.5	256.0	83.69	83.71	22.94	22.92	22.46	22.63
June	253.8	257.3	85.14	85.15	23.45	23.42	22.63	22.75
July	256.1	258.1	84.43	87.82	23.27	24.91	22.95	23.07
August	257.5	259.0	85.78	86.41	23.62	23.62	23.20	23.37
September	258.6	260.1	87.02	87.72	23.94	23.99	23.46	23.62
October	259.9	261.3	89.16	86.65	24.26	23.89	23.68	23.55
November	262.4	263.1	90.45	90.43	25.03	25.13	23.95	24.01
December	264.5	264.8	91.95	91.06	24.92	25.52	24.26	24.32
Janaury 1982	266.3	266.2	93.45	92.49	25.67	25.79	24.55	24.46

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
October 1980	456.5	456.5	3.78	3.78
November	459.5	458.0	3.86	3.86
December	462.1	456.8	3.76	3.73
January 1981	465.5	461.8	3.86	3.69
February	468.3	465.9	3.95	3.90
March	470.4	468.3	4.04	3.96
April	472.9	472.1	4.15	4.14
May	476.5	476.6	4.21	4.22
June	480.9	481.2	4.20	4.31
July	483.1	484.3	4.26	4.35
August	487.4	487.0	4.33	4.32
September	490.8	490.2	4.44	4.45
October	493.2	493.5	4.53	4.56
November	498.3	497.8	4.58	4.59
December	501.7	501.5	4.61	4.65
January 1982	504.8	502.3	4.65	4.70

Fore. = February Forecast
C. E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1980	253.9	253.9	252.2	255.4	281.2	282.0	260	260	44.7	54.1
November	256.2	256.2	253.2	256.2	282.7	283.4	264	264	40.3	50.8
December	258.4	258.4	254.7	256.9	286.1	286.1	265	265	41.6	52.3
January 1981	260.9	260.5	257.2	259.8	288.9	289.9	265	264	37.3	35.3
February	264.0	263.0	260.5	262.4	292.3	294.8	264	263	40.4	52.4
March	267.1	265.4	263.3	265.3	295.9	298.9	267	258	47.7	58.6
April	270.0	268.3	266.1	268.1	298.8	301.9	272	262	53.2	61.7
May	272.9	270.7	269.3	270.5	302.5	304.5	275	267	49.9	50.1
June	275.8	273.1	272.4	273.1	306.2	307.1	274	272	49.3	42.6
July	277.3	275.3	274.8	275.5	308.5	309.2	276	276	44.8	46.9
August	278.6	277.8	276.3	277.9	309.3	311.5	278	278	45.2	45.7
September	279.9	280.0	277.8	280.4	310.2	313.0	281	277	40.2	40.2
October	282.4	282.0	280.2	283.1	313.9	316.2	278	280	40.7	45.0
November	284.9	284.2	282.9	284.7	315.4	318.2	281	283	38.9	42.9
December	287.3	286.8	285.5	287.2	316.9	320.0	285	287	39.8	45.1
January 1982	289.8	289.1	287.7	289.4	318.5	322.3	289	291	37.3	28.0

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
October 1980	-972	-972	136.0	136.1	2713	2703	1486	1481	1.8259	1.8257
November	-788	-788	137.6	137.6	2748	2737	1495	1489	1.8386	1.8375
December	-2056	-2056	136.5	137.4	2762	2752	1489	1487	1.8550	1.8511
January 1981	-1483	-4372	135.3	136.7	2795	2801	1497	1500	1.8673	1.8670
February	-1526	-2345	134.7	136.3	2809	2819	1495	1497	1.8792	1.8836
March	-1694	-927	132.9	137.8	2825	2847	1492	1498	1.8932	1.9005
April	-1842	-1465	133.4	137.9	2848	2858	1491	1491	1.9106	1.9174
May	-1993	-1723	135.1	137.2	2870	2879	1486	1490	1.9309	1.9322
June	-1971	-1695	136.0	136.9	2893	2902	1487	1490	1.9455	1.9477
July	-1024	-2236	138.2	138.3	2936	2933	1498	1495	1.9605	1.9617
August	-1683	-891	138.3	139.0	2972	2951	1506	1493	1.9736	1.9767
September	-1038	-1427	139.9	139.7	3007	2981	1513	1497	1.9873	1.9907
October	-1381	-1762	140.3	140.4	3042	3025	1512	1503	2.0116	2.0120
November	-1605	-1853	140.8	141.2	3075	3067	1522	1515	2.0203	2.0241
December	-1416	-1791	141.9	142.0	3114	3099	1533	1519	2.0314	2.0396
January 1982	-1556	-2042	142.5	142.7	3147	3138	1538	1528	2.0455	2.0539

Fore. = February Forecast
C. E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
October 1980	160.9	160.5	412.0	412.0	1656.5	1656.5	12.81	12.81	11.63	11.63
November	162.9	162.6	415.0	415.0	1671.0	1670.8	15.85	15.85	13.50	13.50
December	162.9	162.5	411.9	411.9	1674.8	1673.4	18.90	18.90	14.64	14.64
January 1981	163.3	162.5	416.5	416.1	1682.7	1681.3	18.95	19.08	13.97	14.08
February	164.0	163.3	419.1	417.3	1695.8	1692.0	16.49	15.93	13.01	14.05
March	164.7	164.2	421.7	420.9	1708.9	1710.9	14.06	14.47	11.99	12.43
April	165.8	165.0	422.8	422.7	1720.4	1722.0	13.54	13.76	11.62	11.67
May	166.8	165.9	423.8	425.2	1732.3	1735.7	13.02	13.10	11.50	11.25
June	167.8	166.8	424.9	427.3	1744.5	1748.6	12.55	12.92	11.25	11.03
July	169.5	167.9	428.5	430.5	1762.7	1765.6	12.41	13.26	10.82	11.14
August	170.9	168.7	432.9	432.9	1784.0	1779.4	12.53	13.10	10.65	11.21
September	172.3	169.8	437.2	435.7	1806.3	1795.0	12.65	12.78	10.81	10.93
October	173.9	170.7	441.5	438.2	1825.5	1809.8	12.89	14.06	11.02	11.46
November	175.5	172.5	445.5	443.0	1846.9	1834.4	13.05	15.13	11.25	12.01
December	177.2	173.4	449.2	445.1	1868.5	1847.7	13.19	15.02	11.53	12.15
January 1982	178.6	174.5	452.5	447.8	1887.3	1864.5	13.36	14.46	11.53	12.06

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
October 1980	12.31	12.31	9.11	9.11	12.52	12.52	12.94	12.94	13.79	13.79
November	12.97	12.97	9.56	9.56	15.18	15.18	15.68	15.68	16.06	16.06
December	13.21	13.21	10.11	10.11	18.07	18.07	18.65	18.65	20.35	20.35
January 1981	13.05	12.81	10.05	9.85	17.93	16.58	18.32	17.19	20.35	20.16
February	12.33	13.35	9.62	10.10	15.98	15.49	16.39	16.14	18.86	19.43
March	12.06	13.02	9.41	10.14	14.02	14.09	14.51	14.57	16.92	18.24
April	12.25	12.79	9.56	9.72	13.65	13.37	14.02	13.86	16.31	16.63
May	12.34	12.46	9.75	9.53	13.06	12.69	13.56	13.15	15.49	16.14
June	12.28	12.42	9.64	9.38	12.72	12.42	13.09	12.89	15.08	15.43
July	12.06	12.56	9.41	9.52	12.75	13.08	13.02	13.51	14.67	15.25
August	11.83	12.68	9.17	9.64	12.66	13.10	12.92	13.60	14.22	15.25
September	11.93	12.61	9.19	9.61	12.85	12.97	13.14	13.46	14.05	15.07
October	12.02	12.75	9.20	9.73	12.97	14.11	13.29	14.65	14.37	15.58
November	12.10	12.83	9.26	9.82	13.23	15.32	13.68	15.86	14.89	16.97
December	12.17	13.02	9.31	10.03	13.45	15.25	13.95	15.72	15.43	17.43
Janaury 1982	12.27	12.86	9.37	9.90	13.62	14.72	14.07	15.26	15.62	17.50

Fore. = February Forecast
C. E. = Current Expectations

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Newsletter

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MONTHLY PROJECTIONS
FOR APRIL

APRIL ECONOMY APPEARS TO WEAKEN BUT CREDIT MARKETS SAY OTHERWISE

All the obvious economic indicators suggest that the economy faltered slightly in April. After automobile rebates lapsed, the sales of automobiles plunged to an average of less than 9 million units. According to preliminary estimates of consumer outlays, the rebate-enhanced sales in March already had begun to falter. Thus, a consumer retrenchment appeared to be assured. Also, the sharp slowing in housing activity should have begun to lower construction spending. After a spurt in nonresidential construction in March, activity normally would slow in April. Also, dramatic increases in shipments for capital goods during March, led by a $5.4 billion annual rate increase in defense shipments, normally is followed by little growth in the subsequent month. Similarly, the first surplus in the merchandise trade account on an f.a.s. basis since 1976 normally would be followed by some weakness. Thus, many of the areas of surprising strength during March normally would be expected to be followed by moderation in April. These assumptions are incorporated in our current estimates of monthly GNP.

However, the dramatic tightening in credit markets during the latter half of April suggest a different story. Sharp increases in estimates of monetary aggregates early in the month caused considerable uneasiness in the credit markets. A large part of this upward movement in monetary aggregates reflects the failure to seasonally adjust moneylike checkable deposits in M1-B and the money market fund component of M2. With Easter following the important April 15 tax date, unadjusted needs for money like deposits are unusually large at this time. Thus, failure to make this seasonal adjustment (the Federal Reserve Board should have assumed that the checkable deposits performed as if they were checking accounts for seasonal adjustment) has led to a dramatic overstatement of the monetary aggregates for April. Whenever seasonals are incorrect, an offsetting reduction in the money measures must develop sometime later in the year. Indeed, the most likely period for this adjusting offset will be in the next few weeks.

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Two components of money that should not be influenced by these faulty seasonal procedures are the monetary base and currency. In both cases their rates of expansion, while accelerating moderately, show no comparable explosion. Although monetary measures are not expanding as rapidly as reported by the Federal Reserve, neither are they slowing. Yet, apparent economic activity in April would almost necessitate a slowing of money growth to preserve prevailing interest rates, let alone cause them to increase sharply. Therefore, the April economy may be stronger than our estimates suggest.

Indeed, initial unemployment claims during the important April reference week dipped to a three month low of 386,000. Despite the sharp reduction in auto sales, auto production continues to rise. Steel production also remains at unusually high levels of capability, averaging 86% in the last four weeks. Of course, both industries may be adding to inventory, thereby merely delaying the slowdown that appears to be developing in consumer spending.

The sharp improvement in merchandise trade balances during March reflects temporary conditions. First, oil imports moved up sharply during the winter as foreign supplies were purchased ahead of price changes. Some of those tankers did not deliver their cargoes until February. Because petroleum consumption is unusually weak at the present time, an inevitable slump in deliveries followed this hedge buying. The slump may persist for several more months. On the other side of the ledger, poor barge traffic on the Mississippi River early in the year delayed some shipments of grain. Many of those shipments finally moved out in March. While merchandise trade figures are expected to perform better than previously anticipated during the spring, the unusually favorable performance during March appears to be temporary.

Even if our estimates of sluggishness following a strong March is correct, economic activity in the second quarter now appears to be growing at a modest positive rate. If inventory accumulation is more robust than we anticipated and if defense spending continues to move dramatically forward (federal government expenditures on goods and services already is at the beginning FY 1982 estimated levels), then activity can be stronger than we anticipate during the spring. This would lead to some weakening of activity during the summer months, although an impending recession now appears to be out of the question. Indeed, cyclical forces of recovery are very well in place. Except for the incredibly high interest rates, which are decreasingly influencing spending plans, the economy shows all the signs of being in the early stages of an economic expansion. The last time the federal government instituted a stimulative program at this stage of the business cycle (in 1977) the result was substantial inflationary pressures. One can only hope that the supply-siders and monetarists are correct and that the President's conprehensive program can avoid the normal cyclical pitfalls that such a program otherwise would develop.

Surprising GNP Figures Cause Revisions In Monthly Projection Format

Although our estimates of nominal GNP were close to the mark for the first quarter, we completely missed the composition between real and price change. The reason for this error was caused by our method of analysis. First, we determined the dollar values of GNP from the monthly report. We then used fixed weighted indices, such as the PPI and CPI, to determine the inflationary pressures. While this procedure approximates the fixed weighted inflation measure (our 10.3% projection of price changes came acceptably close to the 9.9% change on the fixed weighted index), it does not adjust for changes in purchasing power generated by shifts in the composition of GNP.

In the first quarter, mild weather reduced energy consumption. While overall consumer activity expanded 4.7% at annual rates during the quarter, it should have expanded 6.7% in real terms if spending on energy remained constant. Because of earlier dramatic increases in the prices of energy products, this involuntary, but welcome, reduction in normal consumption released more than normal amounts of purchasing power. Because expenditures shifted from high priced items to lower priced items, the GNP deflator fell below the fixed weighted estimates by two full percentage points. The consumer then used this released purchasing power to procure other items. While auto rebates encouraged consumers to purchase what they perceived as bargains, the drop in personal savings rates at a time when energy consumption was actually declining suggests that the desire to save is completely absent from consumer decisionmaking at the present time.

Of course, when the energy consumption no longer declines, the GNP deflator will move up toward its fixed weighted value. This means that the deflator will show larger gains later in the year. Moreover, as consumption shifts toward more normal patterns, purchasing power will again be exhausted by purchasing energy. This will lead to weakness in consumer spending later in the year.

In order to capture these effects and avoid the errors that were made during the first quarter, we have added consumption expenditures for durables, nondurables, and services. We have also included price indices for those categories and for the consumer deflator. We have explicitly included the implicit construction deflator as well. These additional prices along with our traditional estimates of CPI and PPI permit us to analyze by sector more than 75% of the real change in GNP on a monthly basis. Thus, our GNP deflator is derived from an estimate of real GNP. Hopefully, this change will permit us to more closely capture the shifts in composition that sometimes generate surprising results. At the very least, we hope to quickly realign our quarterly estimates as the monthly indicators suggest that economic conditions differ from forecasted values. Moreover, these changes are a first step in integrating the monthly analysis with the more complete and comprehensive quarterly model.

Quarterly Profile of GNP

	1980-IV	1981-I	1981-II	1981-III	1981-IV	1982-I
Real	3.8	6.5	0.3	2.3	2.4	4.3
Price	10.7	7.8	8.7	9.1	9.9	8.9
Nominal	14.9	14.9	9.1	11.6	12.5	13.5
Real Gross Private Domestic Product	5.0	7.0	0.6	2.5	2.9	5.0

Monthly Statistical Highlights
for April 1981

Payroll employment, -73,000; index of hours worked, unchanged; household employment,+40,000; unemployment rate, 7.4%; personal income, +0.7%; personal consumption. +0.2%; savings rate, 5.1%, retail sales, -1.7%; automobile sales, 8.6 million units; housing starts, -2.4%; housing permits, -8.5%; construction expenditures, -1.8%; business inventories, +1.0%; orders for durable goods, -0.8%; orders for nondefense capital goods, -2.0%; CPI, +0.9%; PPI, +0.6%; industrial production, -0.2%; consumption deflator, +0.9%; construction deflator, +0.5%; leading indicators, +0.3%, M1-B, +16.8%; M2, +19.9%.

Monthly Statistical Highlights
for May 1981

Payroll employment, -11,000; index of hours worked, -0.1%; household employment, -11,000; unemployment rate, 7.5%; personal income, +0.9%; personal savings, 4.9%; personal consumption, +1.1%; retail sales, +1.4%; auto sales, 9.2 million; housing starts, unchanged; housing permits, +1.1%; construction expenditures, -2.5%; business inventories, +0.3%; orders for nondefense capital goods, +1.4%; orders for durable goods, +0.7%; industrial production, unchanged; CPI, +0.7%; PPI, +0.7%; agricultural prices, +1.5%; consumption deflator, +0.6%; construction deflator, +0.4%; merchandise trade balances (new basis), -$0.68 billion; leading indicators, -0.4%; M1-B, -0.3%; M2, +4.9%.

COMMENTARY

Employment

Payroll employment showed little change in March as goods-producing industries showed little employment direction while moderate increases in service producing industries was offset by a 56,000 job decline in state and local governments. Such a decline probably will not recur in subsequent months. On the other hand, the coal miners strike should significantly reduce payroll employment, by about 110,000 in April and by a further small amount in May. This, accounts for most of the weakness in payroll employment and the index of hours worked during those two months.

Household employment showed a surprising 485,000 increase with most of the gain in men 20+. This appears to be a normal fluctuation in the sampling technique and probably does not imply a persistent trend. Slow growth both in household employment and in the labor force is anticipated in the next few months. The hourly earnings index continues to expand by 9.5% from previous year levels with gains uniformly distributed in the union and non-union sectors. In recent months the fastest wage gains have been in the finance area. No evidence of a slowing in wage pressures is apparent.

Personal Income

Upward revisions in interest income and in wage and salary income have boosted estimates of personal income for the first three months of the year. As a result, personal savings has been revised upward from earlier depressed levels. We have changed our assumption about the effective date of the personal income tax reductions. In our February forecast, tax rates were assumed to change in July, Congress clearly will not be able to enact such a package by that time. As a result, we now feel that the effective date may be delayed until the beginning of 1982. Since most of the tax reductions we previously anticipated were expected to go into savings, the impact of this changed assumption on personal outlays is not significant. Strong growth in consumption during the first quarter even with slowing in energy requirements suggests that consumers remain willing to keep their savings rates at minimum levels. For that reason, we have increased our projection of personal outlays slightly.

Consumption and Retail Sales

Retail sales in March showed very little gain, although preliminary estimates of auto sales showed some increases in dollar value. Estimates of unit sales suggest that these preliminary estimates are slightly overstated. On the other hand, the early 1981 surge in furniture and other nonauto durables is beginning to lose steam. Little growth is expected in that category until housing activity begins to again recover. Moderate changes in food prices and reductions in energy consumption, especially a surprising reduction in gasoline purchases during March, led to little change in nondurable sales during the first quarter. As food prices are expected to accelerate later in the spring and as the decline in energy consumption cannot continue indefinitely, some acceleration in nondurable sales is expected to rebound from their gasoline-induced slump of March. Rapid growth in services during March is expected to give way to more moderate gains in April and May. Thus, consumption expenditures after adjustment for inflation are expected to drop sharply in April and then rebound in May and June. However, the desire of consumers to take their energy savings during the first quarter and spend on other commodities suggest that they may also be taking their post-rebate savings on automobiles and spending it in other areas. For this reason, cur estimates of consumption must be viewed as inconsistent with the performance of the credit markets at this time.

Construction

The March reports on sales of single family units came as a distinct surprise. With mortgage rates approaching 16% nationwide, sales were expected to continue to slump. Of course, bad weather in February did impact upon construction activity. It may also have influenced housing sales. Nevertheless, the 0.6% increase in single family sales in March to a 511,000 level and a reduction in the inventories to less than eight months suggest that little further decline in single-family starts is likely. On the other hand, interest rates continue to trend upward. Mortgage interest rates also are expected to be trending upward, although the average cost of money to mortgage leading institutions is not rising at the present time. (Certificates that are replacing those that were purchased 6 months ago are yielding slightly lower interest). The outflow of savings capital from mortgage lending institutions was at record levels in April suggesting that some lack of availability could develop in the next few months. These offsetting pressures of continuing reasonable sales but higher expenses and less availability suggest little direction in the housing market for the next four or five months.

The decline in housing starts from fourth quarter levels is beginning to be reflected in residential construction expenditures. Such expenditures should decline through May and then remain at a plateau until September. Public construction is surprisingly strong. Although February figures declined sharply from January, this change was probably caused by faulty seasonals. Some rebound is anticipated in March, but little further growth in public construction is expected in 1981. On the other hand, contracts for nonresidential private construction continue to grow sharply. Our estimates show several months of little change before these orders begin to be translated into increasing activity. The timing of the surge in nonresidential construction remains questionable, but significant gains are anticipated in this category before the end of the year.

Business Activity

Orders for nondefense capital goods have been following a dramatic fluctuating pattern since 1981 began. The figures surged in January, slumped in February, and surged again in March. Apparently, shifts in aircraft orders have been responsible for this sawtooth pattern. Such dramatic volatility may continue, but our estimates suggest that the underlying trend will be gradually upward. A similar pattern is expected for the orders of durable goods. In April, orders should experience some modest weakness as transportation shipments and orders fall significantly.

Of more significance in business activity is the dramatic increase in defense shipments. In the first three months of 1981 defense shipments have increased at an annual rate of more than $8 billion. More that $5 billion at annual rates of this increase occurred in March alone. Defense shipments have already reached levels that were not anticipated until the beginning of FY 1982. Of course, some moderation in defense activity should be anticipated following this surge, but the backlog of orders continues to increase. Moreover, shipments of nondefense capital goods have increased significantly from December levels. Indeed, this expansion of capital goods activity in March and possibly in April may be responsible for much of the firming of interest rates. Of course, a surge in defense shipments comes at the expense of inventories of goods in progress. For that reason, manufacturing inventories slowed in March and is expected to continue to move at a relatively slow rates through much of the second quarter. Nevertheless, strong gains now appear to be developing in business activity.

The moderation in industrial production that we expect is solely the result of the UMW strikes. The increase in automobile production may lead to underestimated industrial production in April.

Prices

A continued slowing in the CPI during March was primarily the result of a continuing decline in housing prices. (Our CPI report also indicated that mortgage rates rose at a larger rate than the BLS captured in that report). Housing prices soon should end their period of weakness. Mortgage rates are not yet approaching a peak. Moreover, telephone and postage rates should impart a surprising increase in prices for other household durables during April. Thus, the CPI estimates will rise from their 0.6% gain in March.

The PPI for finished goods continues to reflect declining agricultural prices but rising prices for petroleum products. Energy prices are expected to become less and less significant through the summer months. Indeed, some negative values are possible in May and June. Similarly, these moderate energy prices should restrain prices of industrial commodities.

Our new area of consumption deflators indicates that prices spurted slightly in March. The primary cause of this increase was in consumer services. These gains in consumer services are expected to remain significat during the second quarter. Moreover, some moderation of price increases in consumer durables is not expected to persist. Despite this lessening of favorable inflationary trends, inflationary pressures have eased since our February forecast was made. The declines are especially noteworthy in the construction area. That long-term interest rates are larger than expected in February, even as inflationary trends appear to be lower, suggests that high short-term interest rates are imparting a significant influence upon long-term rates at the present time.

Miscellaneous

The favorable merchandise trade balance in March is not expected to persist, even though low levels of petroleum imports should continue for several months. The major problem is on the export side, where the surge in agricultural exports appears to be the reverse of a sharp plunge in those exports during Janaury. Because petroleum imports remain moderate, our near-term estimates of the merchandise trade balance has been reduced. Thus, the current account will remain in surplus through the second quarter. The dollar should remain strong. By the end of the year, this strength should begin to exert negative influence upon our trade position.

A distortion that crude petroleum imparted upon the leading indicators in February and March will be reversed in May and June. This is why the indicators show declines even though economic conditions show little evidence of developing weakness.

Financial Markets

Interest rates began to trend upward in early April. The initial impetus of this upward move was the realization that Federal Reserve policy had not eased. However, the upward momentum is so significant that other forces must also be at work. The sharp discrepancy between rates on federal funds and commercial paper during April suggests that the Federal Reserve is causing much of the upward move. If that is the case, and if money growth is not unduly strong after appropriate seasonal adjustments, then the economy must be requiring more financial assets that the Federal Reserve is willing to support. Of course, sharp increases in money velocity during the fourth quarter of 1980 and the first quarter of 1981 may have exhausted all the flexibility in money markets. If so, a continuation of the Federal Reserve's monetary targets would lead to significantly rising interest rates. The velocity of money should ease slightly during the summer months, leading to some lowering of interest rate pressures at that time. In the meantime, our estimates of interest rates are increased across the term-structure of interest. If expected inflation is correct, seasoned Aaa's are yielding more that 4% after adjustment for inflation. This is one of the highest real yields recorded by these bonds. Ultimately, such high interest rates must endanger corporate activity. (Because interest rates are tax deductable companies earning profits will continue to borrow. However, the danger of failing to earn taxable income to offset interest rate charges is especially acute.

Credit risks can change almost overnight. Such uncertainty ultimately must slow economic activity).

While many bankers continue to state that the prime rate will resume its downward trend and reach 15% soon after midyear, our estimates show that a 17% prime may be the best rate in 1981. Interest rates should become more stable in the second half of this year, but the rates will remain uncomfortably high.

Stock Market

The surprising strength in economic activity during the first quarter was accompanied by a reduction in the IVA. As a result, the quality of earnings improved significantly. During the second quarter the IVA will not be a significant factor in changing corporate profits. While economic activity is expected to slow, profit gains still appear to be likely. Under these conditions genuine profits would trend upward moderately in this quarter. However, interest rates are trending upward at more than a moderate rate. Thus, downside vulnerability remains in the stock market. A sharp sell-off appears to be unlikely but a move to the 900 range certainly cannot be discounted. These exceptionally high interest rates suggest that the stock market may not reach an 1100 objective in 1981.

5/4/81

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	90917	90961	125.2	125.2	97339	97339	7.5	7.5	260.7	260.9
December	91122	91125	125.7	125.5	97282	97282	7.4	7.4	261.6	261.9
January 1981	91216	91481	125.9	126.8	97443	97696	7.5	7.4	263.5	264.4
February	91295	91644	125.8	126.2	97552	97927	7.5	7.3	265.5	266.3
March	91355	91645	125.8	126.5	97640	98412	7.6	7.3	267.4	268.5
April	91426	91572	125.6	126.5	97816	98452	7.6	7.4	269.4	269.9
May	91484	91561	125.6	126.4	97924	98441	7.6	7.5	271.5	272.3
June	91542	91644	125.7	126.7	98032	98516	7.8	7.6	273.5	273.8
July	91692	91715	125.9	126.8	98165	98565	7.8	7.6	275.5	275.9
August	91833	91802	126.1	127.1	98331	98684	7.7	7.7	277.4	278.1
September	91974	91934	126.4	127.3	98502	98885	7.7	7.7	279.4	280.0
October	92148	92110	126.6	127.7	98743	99062	7.7	7.7	281.6	281.7
November	92339	92315	126.8	127.9	98903	99329	7.6	7.7	283.7	284.0
December	92522	92561	127.1	128.4	99167	99667	7.5	7.6	285.9	285.7
January 1982	92643	92816	127.4	128.7	99361	99931	7.5	7.6	288.0	288.0
February	92870	93019	127.7	129.1	99507	100139	7.5	7.6	290.0	289.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	2.260	2.258	1.400	1.400	102.3	97.4	1.900	1.898	1.798	1.800
December	2.282	2.277	1.413	1.411	112.0	93.3	1.916	1.913	1.804	1.820
January 1981	2.291	2.301	1.424	1.433	95.2	88.2	1.925	1.932	1.830	1.844
February	2.310	2.317	1.435	1.442	98.5	92.3	1.939	1.945	1.841	1.853
March	2.328	2.335	1.445	1.452	99.4	93.3	1.955	1.959	1.856	1.866
April	2.343	2.351	1.454	1.460	93.1	101.1	1.968	1.972	1.875	1.871
May	2.363	2.371	1.463	1.472	91.5	97.1	1.983	1.988	1.892	1.891
June	2.384	2.391	1.473	1.483	90.2	91.2	1.999	2.003	1.909	1.912
July	2.422	2.428	1.486	1.496	137.4	109.7	2.062	2.037	1.925	1.927
August	2.445	2.450	1.499	1.510	136.1	102.2	2.079	2.055	1.943	1.953
September	2.468	2.472	1.513	1.523	132.1	97.9	2.098	2.072	1.966	1.974
October	2.496	2.498	1.532	1.540	134.2	102.3	2.119	2.093	1.985	1.991
November	2.518	2.520	1.547	1.554	131.1	103.4	2.135	2.110	2.004	2.007
December	2.540	2.542	1.563	1.568	129.8	105.2	2.152	2.128	2.022	2.023
January 1982	2.559	2.561	1.577	1.583	142.2	136.8	2.194	2.180	2.043	2.043
February	2.582	2.583	1.590	1.597	150.4	135.1	2.214	2.198	2.064	2.063

Fore. = February Forecast
C. E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	1749.6	1752.0	227.6	223.4	700.0	706.8	822.0	821.9	942.9	947.6
December	1755.5	1771.0	219.5	224.2	697.9	713.1	838.1	833.7	944.1	951.1
January 1981	1776.6	1795.0	226.7	236.5	709.6	720.4	840.3	838.1	946.0	958.1
February	1787.0	1804.3	226.4	240.5	713.9	727.0	846.7	836.7	945.7	958.1
March	1800.2	1816.8	230.0	237.3	719.4	725.9	850.8	853.6	946.9	957.2
April	1815.9	1821.1	228.4	226.7	725.0	729.9	862.5	864.5	945.3	950.3
May	1827.8	1840.7	230.1	232.9	733.3	738.0	864.4	869.8	944.8	954.6
June	1856.9	1861.1	232.0	234.3	741.0	743.6	883.9	883.2	946.1	958.5
July	1878.7	1876.0	233.3	233.2	750.3	748.7	895.1	894.1	948.9	958.5
August	1896.3	1901.0	236.5	236.2	753.9	759.6	905.9	905.2	950.7	964.0
September	1913.8	1920.9	242.7	238.3	748.2	765.2	922.9	917.4	954.9	966.5
October	1929.9	1937.0	241.9	240.4	757.8	770.3	930.2	926.3	957.2	966.7
November	1949.6	1952.1	246.8	243.5	770.7	776.4	932.1	932.2	960.6	967.9
December	1979.2	1967.6	251.8	248.7	789.6	780.4	937.8	938.5	965.2	969.4
January 1982	1996.5	1987.1	253.2	254.2	789.9	788.3	953.4	944.6	967.8	972.3
February	2011.5	2005.9	254.7	258.7	792.3	793.8	964.5	953.4	969.2	974.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	81.93	82.76	11.72	11.41	9.3	9.3	55.38	56.76	14.84	14.59
December	80.83	83.44	11.88	11.57	8.9	8.9	55.21	57.46	13.74	14.41
January 1981	82.33	85.46	11.95	12.11	9.2	9.7	55.95	58.39	14.43	14.97
February	82.64	86.85	11.99	12.14	9.0	10.5	56.29	58.35	14.36	16.36
March	83.49	86.94	12.01	11.92	9.1	10.4	56.72	58.49	14.76	16.53
April	83.92	85.48	11.95	12.05	9.1	8.6	57.14	58.98	14.83	14.45
May	84.77	86.68	11.91	12.13	9.2	9.2	57.79	59.23	15.07	15.32
June	85.60	87.29	12.06	12.09	9.2	9.3	58.40	59.68	15.14	15.52
July	86.96	87.52	12.18	12.12	9.4	9.1	59.13	60.04	15.65	15.36
August	87.17	88.76	12.28	12.17	9.3	9.2	59.41	60.93	15.93	15.66
September	87.96	89.40	12.22	12.25	9.5	9.3	58.96	61.32	16.73	15.83
October	89.16	89.88	12.47	12.23	9.6	9.3	59.65	61.55	17.04	16.10
November	90.78	90.67	12.62	12.43	9.8	9.4	60.67	62.04	17.49	16.20
December	92.88	91.70	12.95	12.55	9.9	9.6	62.16	62.36	17.77	16.79
January 1982	93.71	92.98	13.05	12.71	9.9	9.8	62.71	62.99	17.95	17.28
February	94.50	93.99	13.14	12.83	10.0	10.0	63.23	63.47	18.13	17.69

Fore. = February Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	1.563	1.550	1.012	1.019	1.355	1.355	231.6	235.8	101.4	104.7
December	1.548	1.535	0.947	0.974	1.233	1.235	241.6	247.4	105.0	109.4
January 1981	1.403	1.660	0.823	0.993	1.194	1.228	241.5	261.9	104.2	115.3
February	1.316	1.214	0.782	0.793	1.156	1.165	237.3	252.5	101.8	110.8
March	1.157	1.284	0.780	0.817	0.978	1.128	234.7	253.2	100.0	110.7
April	1.237	1.253	0.823	0.826	1.062	1.032	234.6	248.7	99.2	108.2
May	1.309	1.257	0.859	0.815	1.143	1.043	234.5	242.4	98.5	105.0
June	1.483	1.237	0.896	0.791	1.302	1.031	237.8	246.1	99.2	106.0
July	1.443	1.298	0.933	0.836	1.267	1.083	243.8	245.8	101.1	105.1
August	1.473	1.328	0.976	0.876	1.294	1.132	249.6	249.0	102.8	105.8
September	1.470	1.434	0.971	0.953	1.290	1.246	255.5	251.3	103.7	106.0
October	1.462	1.492	0.975	0.992	1.279	1.291	258.3	258.1	104.9	108.0
November	1.473	1.505	0.979	1.007	1.292	1.316	260.3	264.2	105.0	109.6
December	1.489	1.594	0.983	1.073	1.348	1.390	261.0	269.3	104.5	110.7
January 1982	1.623	1.653	1.088	1.127	1.471	1.444	265.3	277.1	105.4	113.0
February	1.819	1.786	1.273	1.245	1.617	1.595	270.2	279.0	106.5	112.8

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	84.1	85.2	53.7	53.6	93.7	97.0
December	87.5	89.0	57.1	58.2	97.0	100.2
January 1981	87.0	93.2	57.0	65.5	97.5	103.2
February	86.5	91.4	56.2	60.1	94.6	101.0
March	86.2	93.0	56.8	62.5	91.7	97.7
April	87.6	92.7	57.5	62.2	89.5	93.8
May	89.0	93.5	58.3	62.5	87.2	86.4
June	90.5	94.8	59.1	63.1	88.2	88.2
July	91.6	95.3	59.5	62.7	92.7	87.8
August	92.8	96.6	59.9	63.2	96.9	89.2
September	94.0	96.5	60.2	63.7	101.3	91.1
October	95.3	98.2	61.0	64.1	102.0	95.8
November	96.2	100.4	61.8	63.7	102.3	100.1
December	97.1	103.1	61.7	63.1	102.2	103.1
January 1982	98.1	105.6	62.0	65.0	105.2	106.5
February	99.5	105.0	62.4	64.3	108.3	109.7

Fore. = February Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	244.1	244.1	81.05	81.05	21.85	21.85	21.86	21.86
December	246.0	244.5	82.47	82.65	21.63	21.67	21.39	21.77
January 1981	248.5	248.4	80.73	81.34	22.14	24.51	21.86	22.44
February	249.1	251.2	80.26	82.21	22.43	20.59	22.05	21.93
March	249.5	253.0	81.15	83.25	22.40	23.56	22.26	22.57
April	250.2	255.2	82.62	82.59	22.68	23.09	22.32	22.43
May	252.5	256.7	83.69	83.14	22.94	23.41	22.46	22.65
June	253.8	258.0	85.14	83.99	23.45	23.62	22.63	22.83
July	256.1	259.9	84.43	85.14	23.27	24.16	22.95	23.06
August	257.5	260.7	85.78	85.43	23.62	24.05	23.20	23.25
September	258.6	261.5	87.02	86.65	23.94	24.43	23.46	23.51
October	259.9	262.3	89.16	86.42	24.26	24.29	23.68	23.75
November	262.4	264.0	90.45	88.17	25.03	24.21	23.95	23.93
December	264.5	265.4	91.95	90.43	24.92	24.64	24.26	24.32
January 1982	266.3	267.1	93.45	92.79	25.67	25.49	24.55	24.63
February	268.9	269.0	94.14	94.06	25.53	25.96	24.84	24.89

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	459.5	458.0	3.86	3.86	149.2	149.4	79.3	79.3
December	462.1	461.7	3.76	3.73	150.7	151.0	79.8	79.7
January 1981	465.5	465.1	3.86	3.69	150.9	151.7	79.6	80.0
February	468.3	470.0	3.95	3.92	150.4	151.1	79.0	79.4
March	470.4	473.6	4.04	4.37	149.0	151.7	77.9	79.5
April	472.9	478.2	4.15	4.25	148.2	151.4	77.0	79.1
May	476.5	479.6	4.21	4.29	147.0	151.3	75.9	78.8
June	480.9	482.3	4.20	4.32	146.1	152.0	75.1	79.2
July	483.1	486.6	4.26	4.36	148.5	152.2	76.4	79.1
August	487.4	488.6	4.33	4.43	150.6	152.5	77.5	79.1
September	490.8	491.4	4.44	4.51	154.1	152.8	79.5	79.1
October	493.2	494.5	4.53	4.56	156.3	153.5	80.6	79.3
November	498.3	498.2	4.58	4.62	157.5	153.8	81.1	79.3
December	501.7	501.9	4.61	4.70	158.5	154.6	81.4	79.6
January 1982	504.8	505.3	4.65	4.76	160.2	155.0	82.1	79.7
February	508.6	509.1	4.69	4.75	161.9	155.6	82.7	79.9

Fore. = February Forecast
C. E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	256.2	256.2	253.2	256.2	282.7	283.4	264	264	1.8386	1.8375
December	258.4	258.4	254.7	256.9	286.1	286.1	265	265	1.8550	1.8511
January 1981	260.9	260.5	257.2	259.8	288.9	289.9	265	264	1.8673	1.8632
February	264.0	263.2	260.5	262.4	292.3	294.8	264	263	1.8792	1.8710
March	267.1	265.1	263.3	265.3	295.9	298.9	267	258	1.8932	1.8848
April	270.0	267.5	266.1	267.2	298.8	301.6	272	263	1.9106	1.9013
May	272.9	269.4	269.3	269.0	302.5	304.1	275	267	1.9309	1.9116
June	275.8	271.8	272.4	271.4	306.2	306.9	274	272	1.9455	1.9248
July	277.3	274.5	274.8	274.2	308.5	308.7	276	277	1.9605	1.9398
August	278.6	277.0	276.3	277.0	309.3	310.5	278	278	1.9736	1.9542
September	279.9	279.1	277.8	279.3	310.2	312.4	281	278	1.9873	1.9694
October	282.4	281.5	280.2	281.4	313.9	316.1	278	280	2.0116	1.9894
November	284.9	283.6	282.9	283.5	315.4	318.0	281	283	2.0203	2.0000
December	287.3	285.5	285.5	285.1	316.9	320.1	285	286	2.0314	2.0137
January 1982	289.8	287.5	287.7	286.9	318.5	322.0	289	290	2.0455	2.0286
February	291.7	289.8	289.5	289.0	324.3	324.9	290	290	2.0634	2.0441

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	185.6	184.9	160.6	160.7	195.2	195.0	184.3	184.2	228.4	225.2
December	185.9	186.2	161.2	161.0	196.7	196.6	185.8	185.6	230.1	226.1
January 1981	187.8	187.3	161.9	162.1	198.6	197.6	187.2	187.2	231.8	227.1
February	189.0	188.3	162.9	162.4	201.1	199.2	188.9	188.0	233.1	227.9
March	190.1	189.8	163.5	162.7	203.5	200.5	190.3	190.0	234.7	228.8
April	192.1	191.6	164.3	164.3	205.6	202.1	192.0	191.6	236.5	229.9
May	193.5	192.8	165.1	164.8	207.7	203.4	193.8	193.1	238.1	230.8
June	196.3	194.2	166.0	165.5	209.8	204.8	195.2	194.6	239.7	232.2
July	198.0	195.7	167.2	166.3	211.4	206.5	196.9	196.2	241.1	233.9
August	199.5	197.2	168.1	167.2	212.5	208.2	198.3	197.7	242.8	235.3
September	200.4	198.7	168.9	168.1	213.9	210.1	199.9	199.2	246.4	237.0
October	201.6	200.4	170.0	170.0	215.2	211.5	201.5	200.9	246.2	238.9
November	203.0	201.7	170.9	171.0	216.9	212.9	202.7	202.3	247.9	241.1
December	205.1	203.0	172.2	172.0	218.3	214.5	204.0	203.6	249.8	243.2
January 1982	206.3	204.4	173.1	172.9	219.8	215.9	205.8	205.3	251.7	245.2
February	207.5	205.9	174.0	174.0	221.5	217.6	207.4	207.0	253.7	247.3

Fore. = February Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	-788	-1145	137.6	137.7	2748	2737	1495	1489	40.3	50.8
December	-2056	-2185	136.5	137.2	2762	2752	1489	1487	41.6	52.3
January 1981	-1483	-4370	135.3	135.9	2795	2804	1497	1505	37.3	26.6
February	-1526	-2158	134.7	135.2	2809	2817	1495	1506	40.4	44.1
March	-1694	+485	132.9	137.1	2825	2859	1492	1517	47.7	52.9
April	-1842	-1043	133.4	137.5	2848	2873	1491	1511	53.2	49.8
May	-1993	-1549	135.1	136.9	2870	2886	1486	1510	49.9	37.9
June	-1971	-1421	136.0	136.5	2893	2907	1487	1510	49.3	31.3
July	-1024	-962	138.2	137.3	2936	2932	1498	1511	44.8	38.7
August	-1683	-1379	138.3	138.2	2972	2974	1506	1522	45.2	37.2
September	-1038	-2241	139.9	139.5	3007	3001	1513	1524	40.2	33.1
October	-1381	-2611	140.3	140.3	3042	3022	1512	1519	40.7	39.3
November	-1605	-2108	140.8	142.1	3075	3057	1522	1529	38.9	38.4
December	-1416	-1742	141.9	142.3	3114	3094	1533	1536	39.8	37.9
January 1982	-1556	-2713	142.5	143.2	3147	3136	1538	1546	37.3	30.2
February	-1590	-2941	142.9	144.0	3177	3156	1540	1544	37.6	33.8

Fore. = February Forecast
C. E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	162.9	162.6	415.0	415.0	1671.0	1670.8	15.85	15.85	13.50	13.50
December	162.9	162.5	411.9	411.9	1674.8	1673.4	18.90	18.90	14.64	14.64
January 1981	163.3	162.5	416.5	416.0	1682.7	1681.4	18.95	19.08	13.97	14.08
February	164.0	163.3	419.1	417.3	1695.8	1692.2	16.49	15.93	13.01	14.05
March	164.7	164.2	421.7	421.6	1708.9	1714.2	14.06	14.70	11.99	12.81
April	165.8	165.1	422.8	427.1	1720.4	1740.3	13.54	15.69	11.62	13.42
May	166.8	166.2	423.8	427.0	1732.2	1747.2	13.02	16.09	11.50	13.55
June	167.8	167.0	424.9	429.5	1744.5	1762.7	12.55	14.96	11.25	12.71
July	169.5	168.0	428.5	433.1	1762.7	1779.5	12.41	14.20	10.82	12.28
August	170.9	168.7	432.9	434.4	1784.0	1790.2	12.53	15.13	10.65	12.65
September	172.3	169.7	437.2	438.3	1806.3	1809.9	12.65	15.02	10.81	12.41
October	173.9	170.6	441.5	441.8	1825.5	1828.0	12.89	15.46	11.02	12.38
November	175.5	172.0	445.5	445.1	1846.9	1845.3	13.05	15.41	11.25	12.40
December	177.2	173.5	449.2	449.7	1868.5	1868.1	13.19	15.01	11.53	11.94
January 1982	178.6	174.2	452.5	450.3	1887.3	1878.1	13.36	16.29	11.53	12.54
February	179.7	174.9	455.2	453.2	1903.9	1895.8	13.47	15.91	11.72	12.46

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
November 1980	12.97	12.97	9.56	9.56	15.18	15.18	15.68	15.68	16.06	16.06
December	13.21	13.21	10.11	10.11	18.07	18.07	18.65	18.65	20.35	20.35
January 1981	13.05	12.81	10.05	9.85	17.93	16.58	18.32	17.19	20.35	20.16
February	12.33	13.35	9.62	10.10	15.98	15.49	16.39	16.14	18.86	19.43
March	12.06	13.33	9.41	10.38	14.02	13.94	14.51	14.43	16.92	18.05
April	12.25	13.82	9.56	10.65	13.65	14.38	14.02	15.10	16.31	17.38
May	12.34	14.08	9.75	10.84	13.06	15.85	13.56	16.23	15.49	18.49
June	12.28	13.62	9.64	10.46	12.72	14.74	13.09	15.08	15.08	17.83
July	12.06	13.28	9.41	10.16	12.75	14.06	13.02	14.38	14.67	17.12
August	11.83	13.53	9.17	10.28	12.66	15.31	12.92	15.67	14.22	17.50
September	11.93	13.37	9.19	10.16	12.85	14.99	13.14	15.33	14.05	17.50
October	12.02	13.55	9.20	10.28	12.97	15.42	13.29	15.78	14.37	17.76
November	12.10	13.42	9.26	10.21	13.23	15.58	13.68	15.83	14.89	17.85
December	12.17	13.08	9.31	9.95	13.45	14.97	13.95	15.35	15.43	17.50
January 1982	12.27	13.48	9.37	10.23	13.62	16.48	14.07	16.73	15.62	19.14
February	12.43	13.44	9.51	10.19	13.91	16.09	14.46	16.45	16.07	19.00

Fore. = February Forecast
C.E. = Current Expectations

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GSU
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MONTHLY PROJECTIONS
FOR MAY

ECONOMY WEAKENS SLIGHTLY IN MAY; BUT FEDERAL RESERVE FAILS TO NOTICE

Most of the economic signs showing weakness in April persisted in May. Automobile sales fell to an 8 million unit level in April and remained near that level in May. Construction expenditures slumped 3.3% in April and probably fell almost as steeply in May as reflected by the index of hours worked in that industry. Consumer activity appears to have stabilized in May following three consecutive months of inflation adjusted decline. However, consumer spending probably declined in the second quarter after inflation.

Short-term interest rates continued to increase in May, but this rise may be more closely related to a restriction in supply than any increase in demand. The money stock as measured by M1-B declined slightly during the month. Moreover, long-term interest rates began a rally in mid-May that already has advanced nearly 70 basis points. Thus, credit markets in May are not inconsistent with weakening economic conditions. (In April, the discrepancy between measured economic conditions, changing money stock, and rising interest rates remains difficult to explain).

While construction appears to have borne the brunt of economic weakness in May, the index of hours worked also eased slightly in retail trade and in the service industries. Moreover, the index of employment gains as a percent of the 172 industries reporting showed a near recessionary 50.3 increasing employment in May.

Because signs of a weak economy are compelling and because of other reasons, it now appears that economic activity will decline modestly during the second quarter. First, consumption spending adjusted for inflation should show no increase. Second, a sharp decline in public construction accompanied by decreases in state and local government payrolls suggest that expenditures by state and local governments will not contribute to GNP during the second quarter. Third, a sharp decline in defense shipments during April and an apparent slowing of grain purchases for the grain reserve program should cause federal government expenditures to decline slightly after adjustment for inflation during the spring. Fourth, while the American Petroleum Institute was announcing that oil imports fell to a low level in April, the Merchandise Trade Report revealed that oil imports recorded in April rose sharply. Apparently, some oil imports that should have been recorded in March were delayed until April. Real GNP was revised upward by more than a percentage point because of this reporting shift during the first quarter. More than a percentage point, therefore, should be extracted from second quarter performance.

None of those events should persist into the third quarter. Therefore, the current period of economic weakness is not expected to degenerate into a new recession. Indeed, a pause following the unusually sharp 8.4% gain during the first quarter is not unusual.

The value of the dollar has strengthened dramatically in recent weeks. During the last year the trade weighted value of the dollar has increased more than 14%. If this strength is not reversed, inflation rates will be reduced by more than 2 percentage points within two years as a result of the dollar's strength. Of course, American competitiveness abroad will erode. The United States might experience a reduction in its share of world trade by 1983.

In recent weeks the sharp increase in the value of the dollar has encouraged foreigners to switch their portfolios. The result has been a temporary increase in the portfolio demand for dollars. As a result, money available for domestic exchange has been restricted. This affect is normally temporary, and suggests that interest rates may soon begin to trend downward.

Quarterly Profile of GNP

	1981-I	1981-II	1981-III	1981-IV	1982-I
Real	8.4	-1.1	3.1	4.3	0.8
Price	10.0	9.2	8.0	8.7	7.9
Nominal	19.3	7.9	11.6	13.2	8.8
Real Gross Private Domestic Product	9.5	-0.5	3.5	4.8	1.2

Monthly Statistical Highlights
for May 1981

Personal income, +0.6%; personal consumption, +0.9%; savings rate, 5.0%; housing starts, -6.6%; housing permits, -5.8%; construction expenditures, -1.7%; business inventories, +1.0%; orders for durable goods, -0.9%; orders for nondefense capital goods, -2.5%; CPI, +0.5%; industrial production, -0.2%; consumption deflator, +0.7%; construction deflator, +0.7%; leading indicators, -0.4%; M1-B, -2.2%; M2, +9.0%.

Monthly Statistical Highlights
For June 1981

Payroll employment, +211,000; index of hours worked, +0.3%; household employment, -59,000; unemployment rate, 7.5%; personal income, +0.9%; personal consumption, +1.1%; savings rate, 4.8%; retail sales, +1.3%; automobile sales, 8.5 million units; housing starts, -6.3%; housing permits, -7.8%; construction expenditures, +1.7%; business inventories, +0.3%; orders for durable goods, +3.0%; orders for nondefense capital goods, +4.1%; industrial production, +0.2%; CPI, +0.5%; PPI, +0.5%; consumption deflator, +0.6%; construction deflator, +0.9%; leading indicators, -0.3%; M1-B, +14.0%; M2, +11.0%.

COMMENTARY

Employment

Although strike activity in the coal mines and in some construction trades influenced employment estimates for May, the index of hours worked probably would have declined without such factors. Of course, the return of the mine workers during June will lift payroll estimates of employment. However, workers were returning during the survey week. As a result, the hours worked may remain depressed in June. Manufacturing payrolls decreased slightly in May, especially in the areas of transportation equipment, steel production, and paper production. A 40,000 decline in payrolls for state and local governments, reflecting the reduction of public payroll employees, also contributed to employment weakness.

The household estimates of employment, which are not altered by strike activity, increased 259,000 in the month of May. The discrepancy between household estimates of employment and payroll estimates has now increased to 7.7 million an increase of 22% in the last year. This discrepancy will be reduced when the UMW workers return, but the gap remains unusually large. Thus, some slowing in household estimates of employment relative to payroll employment appears likely in the months ahead.

The labor force increased at an unusually rapid rate in May, with participation rates for men 20+ rising from 79.4% to 79.8%. For women 20+, the increase also was a large 0.3 percentage points. Following these unusually large advances, the labor force may actually decline during June.

Finally, the hourly earnings index continues to show little acceleration or deceleration. In the latest twelve months, hourly earnings have increased 9.4%. In the latest quarter, the increase has been 8.9% at annual rates above the previous quarter. As in recent months, wage increases have been more substantial in the nonunion areas than in unionized sectors of the labor market.

Personal Income

In accordance with the current debate on tax revision, the personal tax bill was expected to become effective October 1, 1981. This is a change from our estimates of a January 1, 1982 effective date in the May forecast. While the first year of tax reduction is only at a 5% annual rate, the bill contains provisions to immediately eliminate the distinction between earned and nonearned income, provide an adjustment for the marriage penalty of 5% up to $30,000 of wage income earned by the lower wage earning spouse in the first year and 10% on a similar base in the second and subsequent years, alter the gift and estate tax bracket, raise the IRA and Keough limits, and make the dividend and interest exclusion at up to $400 a permanent part of the tax code. As a result, the revenue displacement is nearly identical for personal income as compared to the original proposal by the President. Moreover, the adjusted program is more heavily weighted toward savings incentives, except in the marriage penalty adjustment, than the original proposal. Nevertheless, this program is not anticipated to permanently raise the savings rate during the projection period. The wage and salary component of personal income has been reduced from July through October from previous anticipations as a result of the delay in a special 5.3% military pay boost. It is now anticipated that this pay boost will be added to the 9.1% previously announced as the military increase for October.

Consumption and Retail

The sharp drop in retail sales during April was exclusively the result of weakening auto sales following the rebate program. Durables other than autos increased modestly in the month and are expected to continue to increase slowly for the remainder of 1981. The dollar value of nondurable goods is expected to show little growth in the next few months, but this is because the nondurable goods price deflator also should show little change. Adjusted for inflation, sales of nondurable goods should show a positive trend during the quarter. The consumption of services is expected to be more steady in the next few months than during the winter, when weather patterns significantly altered the consumption of energy services. Because the economy is weaker during the second quarter than previously anticipated, wages and salaries are growing more slowly than had been expected. As savings rates are only marginally above 5%, sluggish growth in consumer spending is expected into the third quarter. Indeed, estimates of auto sales have been reduced for the next twelve months. However, slower growth in service expenditures is now expected. Part of this moderation is caused by moderation in the services price deflator, especially transportation services. However, some downward adjustment in services to reflect reduced consumer anticipations of future income also is a factor. Slower growth in wage income combined with lower growth in consumer spending causes personal savings to be reduced only slightly from previous expectations.

Construction

Housing continues to confound the critics. After slumping sharply in February, housing starts actually increased in March and April. In May, however, starts are expected to once again trend downward. Certainly, multi-family starts should be adversely impacted by the Reagan budget cuts. Originally, subsidized units were expected to exceed 260,000. The current senate bill has reduced housing subsidies to only 175,000 in the next budget year. Sales of new family homes fell 13.5% in April to 441,000, but previously owned homes experienced a 6% increase in activity. This discrepancy is not surprising, as builders have exhausted committed funds at lower than current interest rates. On the other hand, many buyers of used homes are assuming existing mortgages and using other nonconventional financing techniques to purchase homes. With apartment construction trending downward and the sale of used homes trending upward, the sale of new homes should begin to firm, even at these high interest rates, in the next month or two.

Although high mortgage rates are reducing housing activity, the rate of decline in residential construction has slowed noticeably. One further sharp decline is anticipated, however, in May. Construction weakness is most intense in the public sector, where highways and hospitals are contributing to the weakness. Part of this decline in public construction reflects the inability to breach interest borrowing ceilings for tax exempt bonds. The decline in public construction between January and April has been so abrupt that some improvement now is anticipated. However, purchases by state and local governments appear to be falling significantly below our forecasted values. Private nonresidential construction has stalled in recent months. The latest debate on the depreciation guidelines, where the original ten year depreciable life for owner occupied buildings has been increased to 15 years, can only create near-term confusion. While significant growth in private nonresidential activity is expected during the second half of 1981, a few more months of little growth is expected in the sector.

Business Activity

Shipments and orders for nondefense capital goods were identical in April. We are currently anticipating some further declines in orders for nondefense capital goods in May. As a result, shipments of nondefense capital goods may also decline. Despite this near-term weakness, orders for nondefense capital goods are expected to expand 12.2% in the next twelve months. Shipments should grow 10.6%. After adjustment for inflation, the expansion should be close to 2%.

Defense shipments were expected to decline in April after a dramatic surge in March, but the magnitude of the decline was surprising. Some rebound almost certainly should develop in May. In the next twelve months, shipments are expected to rise nearly 20%.

Business has begun to increase inventories after adjustment for inflation. In particular, the auto industry decided to build dramatically in the second quarter in anticipation of extensive periods of model changeover during the summer. Also, the steel industry discovered that its service centers had very little product. Both sectors should be able to meet their inventory objectives before the end of the second quarter. By that time, however, inventory needs should be increasing in the wholesale and retail area. Both autos and steel should be restricting production activity in the third quarter. Nevertheless, strength in other sectors of the economy, especially the capital goods producing areas, is expected to generate positive growth in industrial production during the summer.

Prices

The slowing of consumer prices as reported by the CPI was not reflected in the consumption deflator in April. The reason for this discrepancy is the slump in auto sales. Because of this slump, consumer durables declined even as other areas of consumption activity increased. Thus, the composition of expenditures moved away from areas with lower price indices. This adverse composition effect probably will influence the GNP deflator during the second quarter. This explains why a significant slowing in commodity inflation is not reflected in the GNP deflator during the spring. Indeed, these composition shifts are so significant that a decline in all the individual price series from the May forecast (with the minor exception of consumer durables and construction) fails to prevent a slight upward revision in the GNP deflator. Of course, most of that upward revision is the result of a dramatic increase in estimates of the GNP deflator during the first quarter.

Although the GNP deflator may not fully reflect it, inflationary pressures are continuing to recede. The primary cause of declining inflationary pressures is the improving prospect for petroleum prices. It now appears that petroleum prices in March reached a peak level. Furthermore, the 10% increase anticipated early in 1982 no longer appears valid. Agricultural prices also appear to be behaving more favorably than had been expected in the May forecast. Hog prices are expected to rise sharply and they should cause other meat prices also to surge during the summer. However, the extremely strong value of the dollar should prevent grain prices from rising dramatically in 1981. The one exception to declining patterns of prices from recent estimates is the construction deflator. First, construction prices rose by 1.4% in March and then increased another 0.8% in April. Following five months of moderate price changes, these increases were surprising. The latent demand for construction goods appears to have begun to firm prices for construction materials. Construction may continue to be an inflationary problem in an environment that is showing decreases in most measures of inflation.

Miscellaneous

The American Petroleum Institute announced that April imports were among the lowest experienced by the United States in recent years. Following that announcement, the Department of Commerce showed a dramatic increase in the volume of oil entering the United States in April. Clearly, one of the two reports is incorrect. It appears that the dramatic improvement in the merchandise trade balance in March was partly the result of underreporting imports during that month. Similarly, the deterioration in trade during April partially reflected the counting of those March reports. Despite that reporting error, the near-term outlook for the merchandise trade balance is favorable. Declining prices for oil will significantly improve our terms of trade. While the resurging dollar ultimately will lead to deteriorating trade balances, this adverse effect probably will not be apparent for the next two years. As a result, merchandise trade balances have been lowered slightly from those contained in the May forecast.

The distortion on the leading indicators created by changes in crude petroleum prices during February should lead to lower estimates of the leading indicators in May and June. In each of those months, a reduction in the weight of the February crude petroleum component of sensitive prices will eliminate 0.6 percentage points from the leading indicators. Excluding those influences, the leading indicators will be largely unchanged in the two months.

Financial Markets

As expected, M1-B showed little growth in May following its dramatic surge in April. During the year, M2 tends to grow about 3 percentage points more rapidly than M1-B. In April, however, M1-B grew more than 7 percentage points more rapidly than M2 at annual rates. Since the seasonal distortions on M2 are considerably smaller than this similar distortion for M1-B, this discrepancy in growth rates clearly suggests that seasonal factors rather than poor Federal Reserve execution led to the money surge in April (the surge actually occurred in March). The Federal Reserve decided to fight this money surge as inventory investment was changing from liquidation to accumulation. The result was a dramatic increase in short-term interest rates. Normally, interest rates tend to rise when inventory investment shifts to accumulation. What was surprising in the April-May episode was the response of long-term rates to the surge in short-term rates. In previous business cycles, long-term rates ignore temporary changes in credit market conditions as a result of temporary changes in inventory accumulations. However, investors in the long-term market are so spooked that they interpreted the upward movement in short-term rates as a new period of credit tighting. This error in judgment caused long-term rates to rise a full percentage point in a two month period. Now that some of the factors causing the surge in short-term interest rates are more firmly understood, long-term rates are retracing that one percentage point change.

Despite all the discussion about poor seasonals on M1-B, there is little doubt that the demand for money has changed dramaticallly, at least twice since the end of 1980. According to our monthly series, the velocity of M2 jumped sharply early in 1981. The velocity remained at this enhanced level for the entire quarter before dropping noticeably in April. If our estimates of economic activity are correct for May and early June, this drop in velocity is being sustained but not intensified. The increased efficiency of money in supporting economic activity early in 1981 may be related to the increased financial instruments available to individual and the increased perception that alternative financial instruments may be more effective than prevailing instruments. Thus, the efficiency of money in supporting economic activity appears to have been permanently increased in January.

Reduced efficiency in April and May could be related to the surge in the dollar. Although the Federal Reserve treats customer sales of American securities for the purpose of defending their own currency as having little influence upon the money stock, these transactions increase the use of money for portfolio exchanges. During the period of this heightened activity, the money stock available for domestic transactions is reduced. Of course, this increased portfolio demand for money by foreigners is temporary. By July, these effects may end. At that time, the efficiency of money could regain the levels that were reached early in the year. If so, short-term interest rates should trend downward even as economic activity begins to accelerate. Interest rates are not expected to fall dramatically, but they should trend irregularly downward for the remainder of 1981. In 1982, a temporary period of slowing inventory investment could encourage significant decreases in interest rates.

Stock Market

A decrease in economic activity during the second quarter should reduce operating profits slightly. However, continuing reductions in commodity inflation should lead to a lowering of inventory profits. As a result, the quality of profits should be improving slightly during the spring. Of course, interest rates are considerably above first quarter levels. Therefore, some consolidation in equity values should have developed. While the stock market has met resistance to establishing new highs, values have been stalled but not repelled. Therefore, further improvement in genuine profits during the third quarter and some significant gains in interest rates may not create the summer rally that otherwise would be justified. By the fourth quarter, however, continued gains in operating profit should be supported by a further moderate reduction in interest rate pressures. Under such conditions, the stock market may threaten the all time peak on the Dow Jones by the end of the year.

One factor reducing the performance of the Dow Jones Index is the concentration of multinational corporations in that index. The strengthening dollar should reduce the profit potential abroad for American producing companies. Therefore, multinationals should tend to underperform other equity values. This also would suggest that the Dow Jones will tend to underperform broader measures of stock market value. These monthly projections remain consistent with a significant (more than 20%) advance in equity values during 1982.

6/11/81

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
December 1980	91125	91125	125.5	125.5	97282	97282	7.4	7.4	261.9	261.9
January 1981	91481	91481	126.8	126.8	97696	97696	7.4	7.4	264.4	264.4
February	91644	91653	126.2	126.1	97927	97927	7.3	7.3	266.3	266.6
March	91645	91705	126.5	126.4	98412	98412	7.3	7.3	268.5	268.6
April	91653	91490	126.2	126.3	98595	98976	7.3	7.3	270.4	269.8
May	91976	91474	126.7	125.9	98804	99235	7.2	7.6	272.3	271.5
June	92287	91685	127.4	126.2	98833	99174	7.3	7.5	274.2	273.6
July	92339	91896	127.5	126.6	99230	99386	7.2	7.4	276.2	275.9
August	92495	92016	127.6	126.9	99400	99578	7.2	7.4	278.3	277.8
September	92624	92208	127.7	127.2	99434	99894	7.3	7.3	280.4	279.9
October	92843	92309	128.0	127.3	99698	100085	7.2	7.3	282.1	281.7
November	92995	92525	128.2	127.5	99847	100261	7.2	7.3	283.9	283.4
December	93090	92737	128.5	127.7	99975	100535	7.2	7.2	285.7	285.1
January 1982	93298	92943	128.7	127.9	100225	100691	7.1	7.2	287.7	287.1
February	93465	93091	129.0	128.0	100477	100889	7.0	7.2	289.8	289.2
March	93747	93304	129.3	128.2	100949	101122	6.9	7.2	291.7	291.2

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
December 1980	2.277	2.277	1.411	1.411	93.3	93.3	1.913	1.913	1.820	1.820
January 1981	2.301	2.301	1.433	1.433	88.2	86.4	1.932	1.931	1.844	1.845
February	2.317	2.318	1.442	1.443	92.3	93.3	1.945	1.946	1.853	1.853
March	2.335	2.338	1.452	1.452	93.3	96.8	1.959	1.963	1.866	1.866
April	2.350	2.351	1.459	1.455	100.3	104.4	1.972	1.974	1.872	1.870
May	2.378	2.364	1.476	1.461	100.1	98.9	1.994	1.985	1.894	1.886
June	2.405	2.385	1.492	1.475	100.8	96.5	2.015	2.002	1.915	1.906
July	2.439	2.423	1.505	1.491	113.7	110.3	2.045	2.036	1.931	1.926
August	2.457	2.443	1.519	1.504	115.1	106.4	2.058	2.052	1.943	1.946
September	2.473	2.466	1.531	1.518	115.9	107.9	2.070	2.070	1.956	1.962
October	2.496	2.490	1.549	1.536	113.6	122.5	2.088	2.103	1.974	1.980
November	2.516	2.507	1.561	1.547	109.2	118.3	2.103	2.115	1.994	1.997
December	2.538	2.523	1.575	1.558	105.4	109.8	2.120	2.126	2.016	2.016
January 1982	2.549	2.535	1.587	1.570	119.2	104.6	2.155	2.133	2.036	2.029
February	2.569	2.554	1.601	1.582	114.3	106.5	2.172	2.148	2.058	2.042
March	2.589	2.572	1.614	1.594	108.5	99.7	2.187	2.162	2.079	2.063

Fore. = May Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
December 1980	1771.0	1771.0	224.2	224.2	713.1	713.1	833.7	833.7	951.1	951.1
January 1981	1795.0	1796.4	236.5	236.6	720.4	719.7	838.1	840.1	958.4	958.8
February	1804.3	1804.0	240.5	237.7	727.0	727.2	836.7	839.1	958.2	958.3
March	1816.8	1817.0	237.3	237.6	725.9	728.6	853.6	850.8	957.2	957.8
April	1822.6	1820.3	228.5	226.6	733.6	736.1	860.5	857.6	952.7	952.1
May	1843.4	1836.3	232.6	229.3	739.9	738.6	870.9	868.4	957.1	953.5
June	1864.2	1855.8	236.7	234.6	746.3	744.9	881.2	876.3	961.9	957.8
July	1880.0	1875.3	238.2	237.3	751.5	753.4	890.3	884.9	963.1	961.3
August	1891.4	1894.6	237.5	241.8	755.3	760.1	898.6	892.7	962.1	964.2
September	1903.7	1910.6	237.8	243.7	759.0	767.0	906.9	899.9	961.5	966.7
October	1921.9	1928.0	241.5	246.9	764.6	770.7	915.8	910.4	964.8	969.4
November	1941.1	1944.1	245.4	248.8	771.5	778.6	924.2	916.7	968.1	971.7
December	1963.0	1963.2	249.3	251.7	780.8	787.1	932.9	924.4	972.8	975.1
January 1982	1982.9	1975.3	253.6	251.9	788.6	792.6	940.7	930.8	974.4	974.6
February	2003.9	1987.6	256.5	252.8	797.5	797.3	949.9	937.5	976.6	973.8
March	2025.4	2007.7	259.3	256.3	806.9	806.5	959.2	944.9	978.9	976.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
December 1980	83.44	83.44	11.57	11.57	8.9	8.9	57.46	57.46	14.41	14.41
January 1981	85.46	85.46	12.11	12.11	9.7	9.7	58.39	58.39	14.97	14.97
February	86.85	86.81	12.14	12.01	10.5	10.5	58.35	58.48	16.36	16.32
March	86.94	87.17	11.92	12.05	10.4	10.4	58.49	58.94	16.53	16.18
April	85.53	86.31	12.16	12.11	8.6	8.1	59.15	59.52	14.22	14.68
May	87.22	86.83	12.29	12.21	9.2	8.2	59.66	59.72	15.27	14.90
June	88.32	87.97	12.64	12.35	9.3	8.5	60.17	60.23	15.51	15.39
July	88.61	88.98	12.41	12.33	9.4	8.7	60.59	60.92	15.61	15.73
August	89.04	90.05	12.39	12.37	9.5	9.0	60.90	61.46	15.75	16.22
September	89.21	90.89	12.29	12.45	9.5	9.1	61.20	62.08	15.72	16.36
October	90.26	91.62	12.36	12.52	9.7	9.3	61.65	62.43	16.25	16.67
November	91.08	92.49	12.36	12.61	9.8	9.3	62.21	63.07	16.51	16.81
December	92.09	93.52	12.71	12.77	9.7	9.4	62.96	63.76	16.42	16.99
January 1982	93.41	94.00	12.91	12.70	10.0	9.5	63.58	64.21	16.92	17.09
February	94.68	94.49	12.76	12.73	10.4	9.5	64.30	64.59	17.62	17.17
March	96.06	95.72	12.86	12.79	10.7	9.7	65.06	65.41	18.14	17.52

Fore. = May Forecast
C. E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
December 1980	1.535	1.535	0.974	0.974	1.235	1.249	247.4	247.4	109.4	109.4
January 1981	1.660	1.660	0.993	0.993	1.228	1.214	261.9	261.9	115.3	115.3
February	1.214	1.215	0.793	0.791	1.165	1.165	252.5	253.9	110.8	111.5
March	1.284	1.289	0.817	0.833	1.128	1.153	253.2	251.5	110.7	108.9
April	1.215	1.343	0.790	0.889	1.076	1.185	250.5	244.6	108.4	105.3
May	1.162	1.255	0.747	0.814	1.005	1.116	249.8	242.8	107.0	103.8
June	1.139	1.176	0.727	0.761	0.992	1.029	248.9	247.0	105.6	104.7
July	1.246	1.135	0.783	0.739	1.063	0.987	250.2	247.6	105.5	103.9
August	1.329	1.167	0.846	0.752	1.142	1.012	253.9	246.3	106.5	102.8
September	1.400	1.221	0.897	0.795	1.231	1.055	261.1	247.6	108.9	102.6
October	1.372	1.285	0.877	0.843	1.239	1.111	264.7	251.2	109.6	103.4
November	1.368	1.354	0.873	0.913	1.228	1.172	267.8	256.5	109.9	104.7
December	1.373	1.399	0.883	0.947	1.239	1.234	269.2	261.7	109.5	106.1
January 1982	1.501	1.473	0.991	1.012	1.317	1.285	276.2	270.0	111.5	108.7
February	1.467	1.512	0.967	1.043	1.336	1.336	277.1	271.5	111.1	108.6
March	1.559	1.547	1.034	1.067	1.412	1.378	283.0	276.6	112.7	109.9

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
December 1980	89.0	89.0	58.2	58.2	100.2	100.2
January 1981	93.2	93.2	65.5	65.5	103.2	103.2
February	91.4	92.8	60.1	60.6	101.0	100.6
March	93.0	93.8	62.5	60.3	97.7	97.4
April	93.7	93.4	62.6	54.2	94.2	97.0
May	94.5	93.0	64.2	57.3	91.1	92.5
June	94.4	93.7	65.4	59.6	89.1	93.7
July	95.7	94.5	65.9	61.4	88.6	91.7
August	97.5	95.4	65.5	63.2	90.9	87.7
September	99.7	97.1	65.7	63.9	95.7	86.6
October	100.6	98.9	66.5	64.6	97.6	87.7
November	101.7	100.2	67.3	65.5	98.8	90.8
December	101.1	100.7	68.1	66.3	100.0	94.7
January 1982	104.9	103.6	68.6	68.2	102.7	98.2
February	103.2	102.7	68.9	67.0	105.0	101.8
March	106.5	104.3	69.2	67.5	107.3	104.8

Fore. = May Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
December 1980	244.5	244.5	82.65	82.65	21.67	21.67	21.77	21.77
January 1981	248.4	248.4	81.34	81.34	24.51	24.51	22.44	22.44
February	251.2	251.2	82.21	82.21	20.59	20.59	21.93	21.94
March	253.3	253.5	83.25	84.21	23.56	23.79	22.57	22.89
April	256.0	254.8	82.06	83.92	21.89	22.77	23.02	22.77
May	258.5	256.7	82.49	83.15	22.16	22.19	22.46	22.68
June	261.1	258.1	82.14	85.61	22.67	23.09	22.20	22.85
July	264.7	260.2	84.43	87.81	23.55	24.02	22.69	23.02
August	267.1	262.2	85.97	88.65	24.14	24.07	23.08	22.96
September	269.5	264.3	86.95	87.94	24.49	23.68	23.67	23.39
October	272.1	267.4	87.95	90.26	25.42	24.61	23.85	23.42
November	275.4	270.0	88.16	91.43	24.73	25.06	24.07	23.76
December	277.8	272.1	88.99	93.62	24.91	25.83	23.98	24.03
January 1982	280.6	274.5	91.67	93.43	25.58	25.24	24.43	24.26
February	282.7	276.9	94.85	95.79	26.27	26.03	24.86	24.63
March	285.1	279.0	97.53	96.42	26.93	26.69	25.61	25.31

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
December 1980	461.7	461.7	3.73	3.73	151.0	151.0	79.7	79.7
January 1981	465.1	465.1	3.69	3.69	151.7	151.7	80.0	80.0
February	470.0	470.8	3.92	3.92	151.1	151.5	79.4	79.4
March	472.7	471.8	4.37	4.33	151.7	152.2	79.5	80.0
April	476.3	475.8	4.26	4.00	151.0	152.8	78.9	80.3
May	479.9	480.7	4.20	4.15	152.5	152.5	79.4	79.9
June	483.4	482.1	4.23	4.24	153.4	152.7	79.6	79.8
July	487.6	485.5	4.32	4.34	153.6	153.3	79.5	80.1
August	490.8	488.9	4.45	4.46	153.2	153.6	79.1	80.1
September	495.1	492.8	4.58	4.57	153.3	154.0	79.0	80.1
October	499.6	497.9	4.65	4.72	153.9	154.2	79.1	80.0
November	502.9	502.3	4.73	4.70	154.7	154.5	79.4	80.0
December	506.7	504.9	4.73	4.78	155.7	154.7	79.7	79.9
January 1982	510.5	508.5	4.80	4.82	156.0	155.0	79.7	79.9
February	514.7	512.9	4.86	4.90	156.5	155.2	79.8	79.8
March	518.6	515.4	4.84	4.91	157.0	155.3	79.8	79.7

Fore. = May Forecast
C. E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
December 1980	258.4	258.4	256.9	256.9	286.1	286.1	265	265	1.8511	1.8511
January 1981	260.5	260.5	259.8	260.4	289.9	291.2	264	264	1.8632	1.8680
February	263.2	263.2	262.4	262.4	294.8	294.8	263	263	1.8710	1.8805
March	265.1	265.1	265.3	265.3	298.9	298.9	262	262	1.8848	1.8991
April	267.5	266.8	267.7	267.7	301.6	301.6	262	261	1.8996	1.9125
May	269.8	268.4	270.0	268.9	304.3	304.1	265	262	1.9150	1.9258
June	271.5	270.0	271.7	270.2	306.7	306.4	269	264	1.9306	1.9382
July	273.7	272.0	273.8	272.4	308.5	308.0	272	268	1.9439	1.9518
August	275.8	273.7	276.1	274.3	310.5	309.6	275	271	1.9552	1.9650
September	277.9	275.8	278.2	276.2	312.6	311.5	276	272	1.9665	1.9766
October	279.9	277.7	280.5	278.1	315.9	315.0	276	273	1.9809	1.9947
November	281.9	279.8	282.2	280.1	317.2	316.4	279	275	1.9968	2.0076
December	284.0	281.7	284.5	282.0	318.4	317.5	282	278	2.0124	2.0208
January 1982	286.4	283.6	286.8	283.9	323.6	322.5	285	281	2.0296	2.0354
February	288.8	285.8	289.1	286.1	328.2	326.3	286	283	2.0448	2.0496
March	291.3	288.0	291.5	288.2	332.5	329.5	290	286	2.0600	2.0656

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
December 1980	186.2	186.2	161.0	161.0	196.6	196.6	185.6	185.6	226.1	226.1
January 1981	187.3	187.4	162.1	162.1	197.6	197.5	187.2	187.3	227.1	227.1
February	188.3	188.2	162.4	161.9	199.2	198.9	188.0	188.2	227.9	227.7
March	189.8	189.7	162.7	162.2	200.5	200.8	190.0	189.7	228.8	231.0
April	191.3	191.2	163.8	163.5	201.7	201.8	191.5	191.1	231.1	232.3
May	192.6	192.6	164.6	165.6	202.9	202.7	193.0	192.7	233.4	233.9
June	193.8	193.8	165.1	166.0	204.2	204.1	194.6	194.1	235.6	236.0
July	195.2	195.1	166.0	166.8	205.5	205.5	196.2	195.6	237.2	238.2
August	196.6	196.5	167.0	168.1	206.7	206.5	197.7	197.1	238.4	239.6
September	198.0	197.6	167.8	168.9	207.9	207.7	199.3	198.6	239.7	241.3
October	199.2	198.9	169.2	170.0	209.3	209.0	200.8	199.9	241.6	243.0
November	200.5	200.1	169.9	171.1	210.8	210.3	201.8	201.0	243.7	244.9
December	201.8	201.3	170.6	171.7	212.4	212.1	202.9	202.1	245.8	246.6
January 1982	203.5	202.7	171.5	172.3	214.6	213.5	204.3	203.6	247.7	248.3
February	205.2	204.1	172.7	173.2	217.0	215.2	206.0	205.0	249.5	250.1
March	206.9	205.7	174.0	174.0	219.5	217.0	207.8	206.7	251.2	251.6

Fore. = May Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
December 1980	162.5	162.5	411.9	411.3	1673.4	1668.7	18.90	18.90	14.64	14.64
January 1981	162.5	162.6	416.0	416.0	1681.4	1681.7	19.08	19.08	14.08	14.08
February	163.3	163.2	417.3	419.0	1692.2	1695.4	15.93	15.93	14.05	14.05
March	164.2	164.1	421.6	422.9	1714.0	1717.0	14.70	14.70	12.81	12.81
April	165.5	165.3	429.5	429.5	1736.9	1734.9	16.89	15.72	13.69	13.45
May	166.5	166.4	430.7	428.7	1753.8	1747.4	19.03	18.52	14.42	15.29
June	167.4	167.0	433.4	433.4	1771.9	1762.7	19.46	18.21	14.94	14.83
July	168.3	167.8	434.2	436.2	1782.5	1777.6	17.68	17.65	14.43	13.92
August	169.1	168.6	434.9	439.9	1787.9	1796.2	16.01	16.42	13.98	12.79
September	169.9	169.4	435.6	441.6	1793.5	1806.7	14.67	16.31	13.62	12.63
October	171.1	170.5	439.1	444.2	1814.6	1820.9	15.43	16.15	13.46	12.42
November	172.3	171.6	442.2	447.7	1831.9	1837.1	14.91	15.63	12.86	12.06
December	173.5	172.6	445.3	449.1	1849.2	1848.4	13.67	16.05	12.53	12.31
January 1982	174.0	173.3	446.5	450.6	1860.5	1860.1	13.47	15.86	12.42	11.96
February	174.6	174.2	447.2	452.6	1867.8	1873.9	13.45	13.43	12.58	11.07
March	175.2	175.0	448.0	454.1	1875.3	1885.7	12.86	12.96	12.38	10.75

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
December 1980	13.21	13.21	10.11	10.11	18.07	18.07	18.65	18.65	20.35	20.35
January 1981	12.81	12.81	9.85	9.85	16.58	16.58	17.19	17.19	20.16	20.16
February	13.35	13.35	10.10	10.10	15.49	15.49	16.14	16.14	19.43	19.43
March	13.33	13.33	10.38	10.38	13.94	13.94	14.43	14.43	18.05	18.05
April	14.02	13.88	10.92	10.69	16.09	14.56	16.65	15.08	18.30	17.15
May	14.66	14.32	11.36	10.80	18.46	17.56	18.95	18.27	20.43	19.61
June	14.37	13.81	11.07	10.72	19.03	16.93	19.52	17.61	20.50	20.03
July	14.16	13.47	10.88	10.44	17.08	16.28	17.65	16.89	19.76	19.23
August	14.05	13.21	10.75	10.24	15.92	15.94	16.51	16.56	19.08	18.65
September	13.82	12.98	10.53	10.02	14.58	15.99	15.09	16.55	17.63	18.47
October	13.85	12.90	10.53	9.93	15.37	15.87	15.86	16.48	17.50	18.25
November	13.61	12.81	10.34	9.80	15.05	15.51	15.52	16.19	17.50	17.93
December	13.58	12.92	10.29	9.86	13.82	16.06	14.29	16.62	17.23	18.14
January 1982	13.35	12.86	10.13	9.77	13.51	15.22	14.03	15.99	17.00	18.00
February	13.31	12.54	10.01	9.53	13.26	13.11	13.59	13.96	16.65	16.93
March	13.15	12.42	9.86	9.41	12.75	12.65	13.42	13.41	16.26	15.82

Fore. = May Forecast
C. E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
December 1980	-2185	-2185	137.2	137.2	2752	2752	1487	1487	52.3	52.3
January 1981	-4370	-4370	135.9	136.0	2804	2827	1505	1513	26.6	27.5
February	-2158	-2158	135.2	135.4	2817	2847	1506	1514	44.1	44.1
March	+485	+458	137.1	137.8	2859	2886	1517	1520	52.9	53.5
April	-1632	-2375	137.4	138.3	2883	2891	1518	1512	49.6	44.1
May	-1329	-1127	136.8	137.7	2908	2905	1519	1509	46.1	37.8
June	-1481	-1243	136.3	137.3	2937	2929	1521	1513	41.7	27.5
July	-643	-762	136.9	138.0	2963	2958	1524	1517	40.3	32.5
August	-973	-985	137.5	138.6	2982	2988	1525	1522	44.9	29.7
September	-1263	-1222	138.1	139.0	3001	3020	1526	1530	54.0	28.9
October	-1205	-1041	138.9	139.5	3035	3054	1532	1534	43.7	35.6
November	-1396	-1116	139.6	139.2	3061	3084	1533	1539	41.8	34.8
December	-1503	-1429	140.4	139.7	3091	3112	1536	1544	42.3	31.5
January 1982	-1613	-1608	140.2	140.0	3130	3132	1542	1544	44.6	26.9
February	-1504	-1714	140.6	141.1	3158	3142	1547	1539	45.7	36.1
March	-1572	-1509	141.4	142.3	3185	3172	1553	1543	46.3	44.1

Fore. = May Forecast
C. E. = Current Expectations

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MONTHLY PROJECTIONS
FOR JUNE

ACTIVITY IS STRENGTHENING IN JUNE BUT SECOND QUARTER GROWTH IS NEGATIVE

Surprisingly, economic activity in May appears to have been weaker than in April. The index of hours worked declined 0.3% while auto sales showed little growth from the 8.1 million rate of April. Retail sales increased an anemic 0.2%, but commodity inflation in May was only marginally higher than that. Preliminary estimates of industrial production showed a 0.3% increase from a downward revised 0.1% gain in April, but these gains were caused by substantial growth in the shipment of nondefense capital goods. (The May increase in nondefense goods was at a $10 billion annual rate).

A modest increase in economic activity is expected for June, because of increasing production of energy materials following the UMW strike and persistent production in the automobile industry despite poor sales prospects. Thus, most of the gains in June will be caused by increases in inventory holdings. Little further gains would be developing in July under these circumstances.

However, social security disbursements and an improving inflationary outlook should create growth in consumer spending during the summer. Aside from the automobile and steel industries, inventories are merely adequate to meet current sales levels. Therefore, inventory investment is expected to continue to grow in an irregular fashion to meet expanding sales through the remainder of this year.

A surprising reversal in interest rates following a momentary period of weakness appears to be totally instigated by Federal Reserve activity. Our figures show that the federal funds rate is trending upward while other short-term rates are trending downward. Moreover, the monetary base showed no growth in June despite continuing modest growth in currency demand. This means that available reserves declined in the month. Our estimates also indicate that M1-B should decline in June for the second consecutive month. Thus, current pressures on interest rates appears to be related to liquidity constraints generated by the Federal Reserve. If the Fed persist with its liquidity starvation, no growth in inventory investment or housing activity would develop during the third quarter. This, in turn, would provide enough relief in the demand for funds to bring interest rates down by the end of the summer. Of course, it would also mean that there would be no significant economic growth during the third quarter.

On the other hand, the Federal Reserve might realize that current restraints are more than sufficient to obtain their money growth targets. Thus, liquidity pressures would be eased in the next few weeks. Under those circumstances, short-term interest rates should fall sooner than under the other condition, but not fall as far. In either case, short-term interest rates are expected to resume their downward trend shortly and continue to move downward through much of the remainder of 1981.

Quarterly Profile of GNP

	1981-I	1981-II	1981-III	1981-IV	1982-I	1982-II
Real	8.6	-1.4	3.8	2.4	2.1	3.7
Price	9.8	8.0	7.5	9.5	8.0	7.9
Nominal	19.2	6.5	11.5	12.2	10.2	11.9
Real Gross Private Domestic Product	9.4	-1.3	4.5	2.6	2.1	4.2

Monthly Statistical Highlights
for June 1981

Payroll employment, +320,000; index of hours worked, +0.4%; household employment, +74,000; unemployment rate, 7.5%; personal income, +0.9%; personal consumption, +0.9%; savings rate, 5.0%; retail sales, +1.0%; automobile sales, 8.1 million units; housing starts, +4.5%; housing permits, -2.2%; construction expenditures, +0.9%; business inventories, +0.6%; orders for durable goods, -0.3%; orders for nondefense capital goods, +1.6%; industrial production, +0.3%; CPI, +0.6%; PPI, +0.7%; consumption deflator, +0.5%; construction deflator, +0.6%; leading indicators, -0.4%; M1-B, -5.7%; M2, +5.8%.

Monthly Statistical Highlights
for July 1981

Payroll employment, +151,000; index of hours worked, +0.2%; household employment, +161,000; unemployment rate, 7.5%; personal income, +1.6%; personal consumption, +1.0%; savings rate, 5.5%; retail sales, +1.3%; automobile sales, 8.7 million units; housing starts, -4.7%; housing permits, -5.1%; construction expenditures, +0.5%; business inventories, +0.5%; durable goods orders, +2.8%; orders for nondefense capital goods, +1.0%; industrial production, +0.2%; CPI, +0.7%; PPI, +0.6%; consumption deflator, +0.6%; construction deflator, +0.8%; leading indicators, +0.1%; M1-B, +8.5%; M2, +12.5%.

COMMENTARY

Employment

The UMW strike ended before the June reference week, but continued strike activity by construction workers reduced the returning workers to only half the 160,000 on strike. The remaining increase in payroll employment as a result of strike settlements will be reflected in the July employment statistics. Some strike effects also are being lessened in the construction area. In addition, the decline in state and local employment that occurred in April and May appears to be the result of the termination of CETA programs. Minor reductions also may occur in June, but a concerted downward trend in state and local employment from these levels does not appear to be likely.

Personal Income

The farm component of personal income showed a surprising increase in May despite continuing reductions in agricultural prices. This increase was caused by increased slaughters of cattle. The slaughter rates remain relatively high for cattle, even though they are declining sharply for hogs. As prices are rising, farm incomes are expected to grow significantly in June and July. Of course, personal income in July will also benefit from significant gains of more than $15 billion in transfer payments. In May personal income figures for other labor income was reduced by $0.7 billion as a result of reduced contributions to mine workers benefits. This reduction should continue in June but begin to be reversed in July. By August, the growth of other labor income should return to predicted levels.

Personal income is expected to grow by a strong 1.6% in July, leading to a significant advance in personal savings. This in turn should spawn significant gains in consumer spending, reversing the weakening of economic activity that developed in the second quarter.

Consumption and Retail

After increasing at more than an 8.5 million annual rate during the first ten days of June, auto sales slowed to a 7.5 million rate in the second ten days. It now appears that auto sales will not exceed 8 million during June. Also, price declines for precious metals should be reflected in price weakness of other durables during June and July. However, auto sales at 8 million units is unsustainably low. As a result, we would anticipate a strengthening in the durable goods area in the months ahead.

A surprising decline in prices for nondurable goods in May is expected to continue into June. Therefore, the estimated growth in nondurable consumption reflects real gains in the volume of sales. While retail sales may not grow by more than 1% in June, a large segment of this growth will be inflation adjusted gains. Indeed, prices of retail goods may be showing no growth in June. This price moderation, rather than any significant changes in earnings, is expected to result in significant gains in nondurable consumer activity during the third quarter.

Construction

The long awaited weakening of housing activity finally surfaced in May, with housing starts falling nearly 14%. This weakness is in response to a 14% decline in the sale of new single-family homes during April. Indeed, housing inventory at April sales levels stood at 9.3 months. Typically, builders reduce activity after inventories exceed 8 months. For that reason, minimal growth in housing should be anticipated in the next few months. Moreover, the sale of used housing has now fallen to 2.5 million at annual rates. This is nearly as low as the 2.2 million trough reached in May, 1980. Despite this weakening housing activity, builders remain confident about the housing future. This is reflected in the growth of building permits, which actually exceeded housing starts in May. Typically, permits lag 150-200,000 behind starts. Also, the decline in housing activity no longer is being reflected in weakening housing prices. The price of the median house increased in April while the May CPI reflected an increase in home purchase prices. Unless mortgage rates continue to rise, a condition that is not anticipated, these home prices suggest that a housing trough is approaching.

Business Activity

Shipments of nondefense capital goods jumped an unusual $0.84 billion during the month of May or at a $10 billion annual rate. This increase occurred despite a modest dip in orders for nondefense capital goods. At the present time, orders are below shipments, suggesting little or no growth in shipments for the next few months. Despite this near-term outlook, our estimates of orders for nondefense goods have increased to 14.3% for the next 12 months. Because of the May surge in shipments, we are currently anticipating growth in that category of 12.3%. This would exceed inflationary pressures by nearly 4%. Of course, these projections depend upon weakening interest rate pressures in the latter part of 1981.

Defense shipments remained unusually low in May even as defense orders once again jumped to $5.8 billion. Orders will decline in this category in June, but shipments almost certainly will be up. With anticipated reductions in orders for defense goods, for nondefense capital goods, for transportation, and for steel, orders for all durable goods in June should show a third consecutive modest decline. Orders are expected to rebound sharply in July.

The inventory picture remains cloudy. Inventories of energy materials probably declined during the second quarter because of the coal strike. On the other hand, auto and steel inventories rose sharply. During the third quarter, this pattern should be reversed. With declining commodity inflation, the IVA is expected to slow markedly. Therefore, the same dollar increase in inventories should result in significantly greater increases in actual inventory holdings.

Prices

We are continuing our extensive development of price projections. For the first time, the monthly projections show values that are consistent with our twelve month CPI estimates. The relationship of the PPI for finished goods and of industrial commodities to the CPI has also significantly improved. In the twelve months to next April the CPI is expected to grow 7.8%. Commodity inflation as measured by the PPI index for finished goods is expected to grow 7.6%. Prices for industrial commodities are projected as growing 8.9%, but these figures appear to be high in comparison with the other estimates. If a downward evaluation is warranted for industrial commodities, the IVA, and therefore, measures of inventory investments also will be revised downward. This, in turn, should reduce the demand for funds.

Declining energy inflation is most significantly seen in the consumer nondurables deflator. Between March and July, this deflator is expected to show no growth. After that time, accelerating food inflation and little further decline in energy prices are expected to cause the index to begin rising again. Nevertheless, the consumer nondurables deflator should increase only 7% in the next twelve months. The deflator for consumer durables currently is estimated to be growing 6.7% for the next twelve months. However, the dramatic decline in prices of precious metals could cut that index by 0.5 percentage points. Prices for imputed financial services are expected to moderate late in 1981, but increasing prices of financial services along with the normal lagged relationship of services inflation to commodity inflation could cause the services deflator to grow 8.8% in the next 12 months. Obviously, these deflators suggest that double-digit inflation will not be in the economy during the next year. The consumption deflator is expected to grow by 7.7%.

One sector of the economy is showing increasing inflationary pressures, the construction sector. Because of accelerating pressures during March and April, we are now expecting the implicit construction deflator to grow 9% during the next year. This is up marginally from expectations during the May forecast.

Miscellaneous

As explained in our last report, the merchandise trade balances for March and April were distorted by reporting problems for imported petroleum. The May figures are expected to be more indicative of near-term trade conditions. While the remarkable strength of the dollar is expected to reduce the competitiveness of American producers, this effect should not be apparent until 1982. Moreover, the negative impact from a strong dollar is offset by the continuing price erosion of petroleum. Indeed, our estimates are consistent with continued current account surpluses through 1981.

By June, the last distorting influence of the crude petroleum price change in February will have left the leading indicators. Because of a revision in these crude petroleum prices, the impact of this shift in sensitive prices is only half as large as was previously recorded. As a result, the leading indicators should decline only 0.7% in May and a further 0.4% in June.

Financial Markets

Our projections still cannot identify why the money stock surged in April. It is clear, however, that the most recent increase in interest rates has been engineered by the Federal Reserve. Not only has M1-B declined for two consecutive months. but the monetary base has now been unchanged for the month of June, Furthermore, the federal funds rate increased in June even as othe sensitive interest rates began to decline. Typically, the slowing of potential reserves combines with a widening of the spread between federal funds and other sensitive interest rates reflects increasing Federal Reserve tightness. As current Federal Reserve policy soon would lead to monetary growth below targeted levels, this extreme constraint upon the growth of liquidity is expected to be temporary. For that reason, we anticipate that the Federal Reserve will slowly relent, permitting money to grow at targeted rates for most of the summer. Under those circumstances, short-term interest rates should decline by nearly 3 percentage points between June and September. Strengthening economic activity at that time should make further improvement in short-term interest rates an irregular affair.

While some market pundits are arguing that short-term interest rates will reach new peaks before the end of this year, such a condition would mean that short-term interest rates are rising while commodity inflation is receding. The real rate of interest would rise to unprecendented levels, leading to significant financial dislocation, possibly in the form of problems with LDC loans. Although such possibilities cannot be dismissed completely, such an economic condition would lead to dramatic improvement in the value of high quality long-term bonds in 1982. If real assets prove to be the appropriate hedge against accelerating commodity inflation, treasury bonds may be the appropriate hedge against this deflationary commodity potential.

In any case, intensifying Federal Reserve restrictions are not necessary to achieve Federal Reserve targets. Thus, interest rates should be trending down very shortly.

Stock Market

Operating profits probably declined during the second quarter as a result of weakening economic activity. Certainly, multinational corporations suffered significant currency translation losses in that period. When these results are announced in July some adverse stock market reaction is possible. On the other hand, receding commodity inflation is reducing the IVA portion of after-tax corporate profits. This means that the quality of corporate profits is rising noticeable. If economic activity begins to improve during the third quarter, operating profits will be rising even as the quality of those profits remains very favorable. Furthermore, decreasing interest rates are likely. Thus, the third quarter should end with all important stock market indicators pointing to market gains. We, therefore, would expect little downside risk in the stock market after the middle of July and once again believe that new highs can be achieved in the Dow-Jones before the end of 1981. Of course, the improvement in after-tax earnings on equities during 1982 should preserve a significant stock market advance. An increase of 20% inflation is not unlikely in 1982.

6/29/81

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1981	91481	91481	126.8	126.8	97696	97696	7.4	7.4	264.4	264.4
February	91644	91653	126.2	126.1	97927	97927	7.3	7.3	266.3	266.6
March	91645	91705	126.5	126.4	98412	98412	7.3	7.3	268.5	268.6
April	91653	91490	126.2	126.3	98595	98976	7.3	7.3	270.4	269.8
May	91976	91474	126.7	125.9	98804	99235	7.2	7.6	272.3	271.5
June	92287	91794	127.4	126.4	98833	99309	7.3	7.5	274.2	273.2
July	92339	91945	127.5	126.7	99230	99470	7.2	7.5	276.2	275.9
August	92495	92163	127.6	127.0	99400	99725	7.2	7.4	278.3	277.8
September	92624	92313	127.7	127.3	99434	99999	7.3	7.4	280.4	279.8
October	92843	92386	128.0	127.4	99698	100162	7.2	7.4	282.1	281.7
November	92995	92589	128.2	127.6	99847	100334	7.2	7.4	283.9	283.5
December	93090	92743	128.5	127.8	99975	100541	7.2	7.4	285.7	285.3
January 1982	93298	92816	128.7	127.9	100225	100664	7.1	7.5	287.7	287.0
February	93465	92883	129.0	127.9	100477	100781	7.0	7.5	289.8	289.0
March	93747	93091	129.3	128.0	100949	100909	6.9	7.6	291.7	291.0
April	93962	93309	129.7	128.3	101117	101154	7.0	7.5	293.7	293.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1981	2.301	2.301	1.433	1.433	88.2	83.6	1.932	1.931	1.844	1.848
February	2.317	2.318	1.442	1.443	92.3	91.0	1.945	1.947	1.853	1.856
March	2.335	2.340	1.452	1.453	93.3	92.2	1.959	1.965	1.866	1.873
April	2.350	2.354	1.459	1.458	100.3	102.9	1.972	1.975	1.872	1.872
May	2.378	2.367	1.476	1.464	100.1	100.7	1.994	1.985	1.894	1.885
June	2.405	2.388	1.492	1.477	100.8	97.8	2.015	2.003	1.915	1.905
July	2.439	2.426	1.505	1.493	113.7	112.2	2.045	2.037	1.931	1.925
August	2.457	2.446	1.519	1.506	115.1	107.7	2.058	2.053	1.943	1.945
September	2.473	2.467	1.531	1.519	115.9	103.1	2.070	2.069	1.956	1.966
October	2.496	2.490	1.549	1.535	113.6	120.0	2.088	2.101	1.974	1.981
November	2.516	2.507	1.561	1.546	109.2	118.0	2.103	2.114	1.994	1.996
December	2.538	2.521	1.575	1.557	105.4	109.7	2.120	2.124	2.016	2.014
January 1982	2.549	2.537	1.587	1.567	119.2	106.2	2.155	2.136	2.036	2.030
February	2.569	2.554	1.601	1.577	114.3	106.7	2.172	2.150	2.058	2.043
March	2.589	2.572	1.614	1.588	108.5	105.0	2.187	2.164	2.079	2.059
April	2.609	2.593	1.629	1.602	105.0	105.8	2.204	2.181	2.099	2.075

Fore. = May Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
January 1981	1795.0	1799.3	236.5	236.6	720.4	721.5	838.1	841.2	958.4	960.1
February	1804.3	1806.9	240.5	237.7	727.0	726.9	836.7	842.4	958.2	959.6
March	1816.8	1824.1	237.3	240.5	725.9	729.6	853.6	853.9	957.2	961.1
April	1822.6	1822.8	228.5	225.1	733.6	734.4	860.5	863.3	952.7	955.3
May	1843.3	1834.7	232.6	225.3	739.9	738.2	870.2	871.2	957.1	956.1
June	1864.2	1854.5	236.7	230.7	746.3	745.2	881.2	878.6	961.9	961.9
July	1880.0	1873.6	238.2	235.7	751.5	752.5	890.3	885.4	963.1	965.9
August	1891.4	1893.6	237.5	240.6	755.3	759.9	898.6	893.1	962.1	969.4
September	1903.7	1913.5	237.8	246.4	759.0	766.3	906.9	900.8	961.5	972.9
October	1921.9	1927.7	241.5	248.1	764.6	770.3	915.8	909.3	964.8	973.0
November	1941.1	1942.2	245.4	248.4	771.5	776.1	924.2	917.7	968.1	973.5
December	1963.0	1960.0	249.3	251.5	780.8	782.0	932.9	926.5	972.8	976.6
January 1982	1982.9	1975.1	253.6	253.9	788.6	786.1	940.7	935.1	974.4	978.6
February	2003.9	1988.1	256.5	253.2	797.5	791.6	949.9	943.3	976.6	978.9
March	2025.4	2003.4	259.3	256.5	806.9	796.3	959.2	950.6	978.9	980.7
April	2044.8	2019.1	262.8	259.0	811.7	802.2	970.3	957.9	981.3	982.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C.E.
January 1981	85.46	85.46	12.11	12.11	9.7	9.7	58.39	58.39	14.97	14.97
February	86.85	86.81	12.14	12.01	10.5	10.5	58.35	58.48	16.36	16.32
March	86.94	87.61	11.92	12.10	10.4	10.4	58.49	59.18	16.53	16.33
April	85.53	85.75	12.16	11.77	8.6	8.1	59.15	59.47	14.22	14.50
May	87.22	85.89	12.29	11.80	9.2	8.2	59.66	59.47	15.27	14.62
June	88.32	87.09	12.64	11.87	9.3	8.5	60.17	60.03	15.51	15.19
July	88.61	88.26	12.41	12.01	9.4	8.7	60.59	60.62	15.61	15.63
August	89.04	89.43	12.39	12.09	9.5	9.0	60.90	61.22	15.75	16.12
September	89.21	90.63	12.29	12.21	9.5	9.3	61.20	61.73	15.72	16.69
October	90.26	91.16	12.36	12.35	9.7	9.3	61.65	62.06	16.25	16.75
November	91.08	91.66	12.36	12.40	9.8	9.2	62.21	62.53	16.51	16.73
December	92.09	92.51	12.71	12.49	9.7	9.4	62.96	63.01	16.42	17.01
January 1982	93.41	93.13	12.91	12.56	10.0	9.6	63.58	63.34	16.92	17.23
February	94.68	93.48	12.76	12.55	10.4	9.5	64.30	63.78	17.62	17.15
March	96.06	94.25	12.86	12.60	10.7	9.7	65.06	64.16	18.14	17.49
April	96.87	95.01	13.16	12.66	10.7	9.8	65.45	64.63	18.26	17.72

Fore. = May Forecast
C. E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1981	1.660	1.660	0.993	0.993	1.228	1.214	261.9	261.9	115.3	115.3
February	1.214	1.215	0.793	0.791	1.165	1.165	252.5	253.9	110.8	111.5
March	1.284	1.297	0.817	0.838	1.128	1.153	253.2	251.5	110.7	108.9
April	1.215	1.340	0.790	0.900	1.076	1.186	250.5	244.6	108.4	105.3
May	1.162	1.152	0.747	0.753	1.005	1.182	249.8	244.4	107.0	104.3
June	1.139	1.204	0.727	0.754	0.992	1.156	248.9	246.5	105.6	104.6
July	1.246	1.147	0.783	0.727	1.063	1.097	250.2	247.7	105.5	104.3
August	1.329	1.193	0.846	0.771	1.142	1.116	253.9	246.5	106.5	103.1
September	1.400	1.265	0.897	0.829	1.231	1.142	261.1	249.9	108.9	103.7
October	1.372	1.294	0.877	0.852	1.239	1.158	264.7	252.5	109.6	104.0
November	1.368	1.351	0.873	0.891	1.228	1.192	267.8	257.9	109.9	105.6
December	1.373	1.398	0.883	0.946	1.239	1.215	269.2	262.2	109.5	106.6
January 1982	1.501	1.530	0.991	1.062	1.317	1.247	276.2	270.2	111.5	109.0
February	1.467	1.528	0.967	1.063	1.336	1.302	277.1	273.7	111.1	109.5
March	1.559	1.582	1.034	1.115	1.412	1.329	283.0	279.5	112.7	110.8
April	1.576	1.631	1.061	1.208	1.426	1.362	286.8	286.0	113.4	112.9

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1981	93.2	93.2	65.5	65.5	103.2	103.2
February	91.4	92.8	60.1	60.6	101.0	100.6
March	93.0	93.8	62.5	60.3	97.7	97.4
April	93.7	93.4	62.6	54.2	94.2	97.0
May	94.5	93.0	64.2	57.3	91.1	94.1
June	94.4	93.6	65.4	59.5	89.1	93.4
July	95.7	94.3	65.9	61.3	88.6	92.1
August	97.5	95.0	65.5	63.0	90.9	88.5
September	99.7	96.2	65.7	63.7	95.7	90.0
October	100.6	97.5	66.5	64.3	97.6	90.7
November	101.7	99.1	67.3	65.0	98.8	93.8
December	101.1	100.3	68.1	65.7	100.0	96.2
January 1982	104.9	103.7	68.6	67.9	102.7	98.6
February	103.2	102.5	68.9	67.1	105.0	104.1
March	106.5	103.6	69.2	67.7	107.3	108.2
April	107.5	105.1	69.6	68.6	109.7	112.3

Fore. = May Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
January 1981	248.4	248.4	81.34	81.34	24.51	24.51	22.44	22.44
February	251.2	251.2	82.21	82.21	20.59	20.59	21.93	21.94
March	253.3	253.5	83.25	84.21	23.56	23.79	22.57	22.89
April	256.0	254.8	82.06	84.29	21.89	23.37	23.02	22.62
May	258.5	256.7	82.49	83.98	22.16	23.25	22.46	23.46
June	261.1	258.4	82.14	83.77	22.67	23.11	22.20	23.21
July	264.7	260.1	84.43	86.15	23.55	23.35	22.69	23.16
August	267.1	262.0	85.97	88.04	24.14	23.67	23.08	23.24
September	269.5	264.0	86.95	86.95	24.49	24.42	23.67	23.41
October	272.1	266.5	87.95	88.43	25.42	23.95	23.85	23.60
November	275.4	268.5	88.16	90.11	24.73	24.47	24.07	23.75
December	277.8	270.1	88.99	92.27	24.91	25.03	23.98	23.94
January 1982	280.6	272.3	91.67	90.63	25.58	24.78	24.43	24.16
February	282.7	274.2	94.85	91.47	26.27	25.41	24.86	24.37
March	285.1	276.3	97.53	93.65	26.93	26.02	25.61	24.82
April	288.9	278.4	99.58	95.52	27.42	26.71	25.96	25.41

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
January 1981	465.1	465.1	3.69	3.69	151.7	151.7	80.0	80.3
February	470.0	470.8	3.92	3.92	151.1	151.5	79.4	79.8
March	472.7	472.4	4.37	4.33	151.7	152.2	79.5	80.4
April	476.3	474.9	4.26	4.00	151.0	152.3	78.9	80.3
May	479.9	478.6	4.20	3.99	152.5	152.8	79.4	79.9
June	483.4	481.5	4.23	4.27	153.4	153.2	79.6	80.1
July	487.6	484.0	4.32	4.31	153.6	153.5	79.5	80.3
August	490.8	486.8	4.45	4.39	153.2	153.7	79.1	80.2
September	495.1	490.3	4.58	4.56	153.3	153.9	79.0	80.1
October	499.6	494.2	4.65	4.65	153.9	154.0	79.1	79.8
November	502.9	497.8	4.73	4.62	154.7	154.3	79.4	79.9
December	506.7	500.7	4.73	4.71	155.7	154.5	79.7	79.9
January 1982	510.5	503.7	4.80	4.79	156.0	154.6	79.7	79.8
February	514.7	507.0	4.86	4.85	156.5	154.5	79.8	79.5
March	518.6	510.5	4.84	4.90	157.0	154.7	79.8	79.4
April	524.7	514.9	4.92	4.93	159.1	155.1	80.6	79.5

Fore. = May Forecast
C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1981	260.5	260.5	259.8	260.4	289.9	291.2	264	264	1.8632	1.8669
February	263.2	263.2	262.4	262.4	294.8	294.8	263	263	1.8710	1.8794
March	265.1	265.1	265.3	265.3	298.9	298.9	262	262	1.8848	1.8980
April	267.5	266.8	267.7	267.7	301.6	301.6	262	261	1.8996	1.9073
May	269.8	269.0	270.0	268.9	304.3	304.1	265	260	1.9150	1.9185
June	271.5	270.6	271.7	270.5	306.7	305.6	269	263	1.9306	1.9275
July	273.7	272.5	273.8	272.3	308.5	307.1	272	267	1.9439	1.9395
August	275.8	274.3	276.1	274.0	310.5	308.7	275	269	1.9552	1.9525
September	277.9	276.2	278.2	276.0	312.6	310.6	276	271	1.9665	1.9662
October	279.9	278.0	280.5	278.1	315.9	313.8	276	272	1.9809	1.9840
November	281.9	279.3	282.2	279.8	317.2	315.2	279	275	1.9968	1.9982
December	284.0	280.4	284.5	281.2	318.4	316.6	282	278	2.0124	2.0106
January 1982	286.4	281.9	286.8	282.6	323.6	319.7	285	280	2.0296	2.0233
February	288.8	283.9	289.1	284.5	328.2	323.4	286	283	2.0448	2.0367
March	291.3	285.8	291.5	286.3	332.5	325.8	290	285	2.0600	2.0499
April	293.2	287.7	293.4	288.1	335.6	328.4	292	287	2.0712	2.0619

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1981	187.3	187.4	162.1	162.1	197.6	197.8	187.2	187.3	227.1	227.1
February	188.3	188.3	162.4	161.9	199.2	198.9	188.0	188.2	227.9	227.7
March	189.8	189.8	162.7	162.9	200.5	200.9	190.0	189.7	228.8	231.0
April	191.3	190.8	163.8	163.7	201.7	200.5	191.5	191.1	231.1	232.3
May	192.6	191.9	164.6	165.2	202.9	200.3	193.0	193.1	233.4	234.2
June	193.8	192.8	165.1	166.0	204.2	200.5	194.6	194.7	235.6	235.6
July	195.2	194.0	166.0	166.8	205.5	201.7	196.2	196.1	237.2	237.4
August	196.6	195.3	167.0	168.1	206.7	203.0	197.7	197.6	238.4	239.1
September	198.0	196.7	167.8	168.8	207.9	204.5	199.3	199.2	239.7	241.0
October	199.2	198.1	169.2	169.8	209.3	206.2	200.8	200.6	241.6	242.7
November	200.5	199.5	169.9	170.9	210.8	207.7	201.8	201.9	243.7	244.2
December	201.8	200.7	170.6	171.6	212.4	209.3	202.9	203.0	245.8	246.0
January 1982	203.5	201.8	171.5	172.3	214.6	210.7	204.3	204.1	247.7	247.9
February	205.2	203.1	172.7	173.0	217.0	211.8	206.0	205.6	249.5	250.0
March	206.9	204.3	174.0	173.9	219.5	213.2	207.8	206.8	251.2	252.1
April	208.4	205.4	174.9	174.7	220.9	214.6	209.3	207.9	253.0	253.2

Fore. = May Forecast
C. E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
January 1981	-4370	-4370	135.9	136.0	2804	2831	1505	1516	26.6	31.4
February	-2158	-2158	135.2	135.4	2817	2848	1506	1515	44.1	42.4
March	+485	+485	137.1	137.8	2859	2880	1517	1517	52.9	51.2
April	-1632	-2375	137.4	138.3	2883	2875	1518	1507	49.6	43.1
May	-1329	-1242	136.8	137.3	2908	2892	1519	1507	46.1	36.8
June	-1481	-1361	136.3	136.8	2937	2927	1521	1519	41.7	23.7
July	-643	-843	136.9	136.9	2963	2950	1524	1521	40.3	28.8
August	-973	-965	137.5	137.7	2982	2975	1525	1524	44.9	25.7
September	-1263	-1175	138.1	138.1	3001	3009	1526	1530	54.0	27.8
October	-1205	-1046	138.9	139.0	3035	3037	1532	1531	43.7	34.7
November	-1396	-1211	139.6	139.6	3061	3064	1533	1533	41.8	33.7
December	-1503	-1423	140.4	139.2	3091	3093	1536	1538	42.3	30.7
January 1982	-1613	-1572	140.2	140.0	3130	3122	1542	1543	44.6	19.0
February	-1504	-1641	140.6	140.5	3158	3134	1547	1539	45.7	27.9
March	-1572	-1563	141.4	141.3	3185	3165	1553	1544	46.3	32.1
April	-1503	-1625	142.0	142.0	3228	3205	1559	1554	41.7	33.4

Fore. = May Forecast
C. E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
January 1981	162.5	162.6	416.0	416.0	1681.4	1681.7	19.08	19.08	14.08	14.08
February	163.3	163.3	417.3	419.0	1692.2	1695.4	15.93	15.93	14.05	14.05
March	164.2	164.0	421.6	422.9	1714.0	1717.4	14.70	14.70	12.81	12.81
April	165.5	165.6	429.5	429.5	1736.9	1735.5	16.89	15.72	13.69	13.45
May	166.5	166.4	430.7	427.7	1753.8	1741.7	19.03	18.52	14.42	15.29
June	167.4	166.4	433.4	425.6	1771.9	1749.9	19.46	19.26	14.94	14.16
July	168.3	167.3	434.2	428.5	1782.5	1767.1	17.68	17.59	14.43	13.85
August	169.1	168.2	434.9	430.4	1787.9	1782.0	16.01	17.10	13.98	13.46
September	169.9	169.0	435.6	432.5	1793.5	1796.0	14.67	16.29	13.62	13.07
October	171.1	170.1	439.1	435.6	1814.6	1814.3	15.43	15.95	13.46	12.72
November	172.3	171.0	442.2	438.1	1831.9	1828.3	14.91	16.18	12.86	13.08
December	173.5	172.0	445.3	440.7	1849.2	1844.7	13.67	16.89	12.53	13.15
January 1982	174.0	172.8	446.5	443.5	1860.5	1861.9	13.47	15.97	12.42	12.65
February	174.6	173.6	447.2	445.7	1867.8	1874.9	13.45	14.21	12.58	11.78
March	175.2	174.5	448.0	448.8	1875.3	1893.6	12.86	13.26	12.38	11.22
April	176.8	175.5	454.6	452.1	1903.6	1911.3	12.43	13.95	11.65	11.73

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
January 1981	12.81	12.81	9.85	9.91	16.58	16.58	17.19	17.19	20.16	20.16
February	13.35	13.35	10.10	10.27	15.49	15.49	16.14	16.14	19.43	19.43
March	13.33	13.33	10.38	10.21	13.94	13.94	14.43	14.43	18.05	18.05
April	14.02	13.88	10.92	10.62	16.09	14.56	16.65	15.08	18.30	17.15
May	14.66	14.32	11.36	10.78	18.46	17.56	18.95	18.27	20.43	19.61
June	14.37	13.85	11.07	10.59	19.03	16.46	19.52	16.81	20.50	19.73
July	14.16	13.45	10.88	10.31	17.08	16.65	17.65	17.11	19.76	19.55
August	14.05	13.36	10.75	10.30	15.92	16.29	16.51	16.78	19.08	19.25
September	13.82	13.09	10.53	9.99	14.58	15.65	15.09	16.04	17.63	18.63
October	13.85	13.15	10.53	10.04	15.37	15.52	15.86	15.93	17.50	18.24
November	13.61	13.02	10.34	9.89	15.05	15.94	15.52	16.42	17.50	18.55
December	13.58	13.24	10.29	10.11	13.82	16.82	14.29	17.27	17.23	19.10
January 1982	13.35	12.96	10.13	9.90	13.51	16.01	14.03	16.47	17.00	18.71
February	13.31	12.73	10.01	9.69	13.26	14.07	13.59	14.61	16.65	16.98
March	13.15	12.61	9.86	9.53	12.75	12.96	13.42	13.45	16.26	16.00
April	13.05	12.69	9.77	9.56	12.29	13.65	12.73	14.11	15.23	16.00

Fore. = May Forecast
C. E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS
FOR JULY

CONSUMER ACTIVITY IS STRENGTHENING; BUT WEAKENING CONSTRUCTION AND BUSINESS ACTIVITY SHOULD LEAD TO THIRD QUARTER DECLINE

Consumer activity strengthened in June after a two month decline as retail sales expanded 1.2% without significant support from durable goods expenditures. Automobile sales remained distressed early in July, but strength surfaced during the second ten days. It now appears that consumer activity will show a second consecutive significant gain in July.

This strength in consumer activity is necessary to prevent a return to recession; for the second quarter GNP report showed a real decline of 4.8% at annual rates for final demand. Thus, inventories were increasing $2.4 billion even as goods production was declining $1.4 billion (not at annual rates). Thus, some inventory adjustment is needed during the summer months, especially in autos, metals, building materials, and household appliances. Also, rising interest rates have developed despite declining commodity inflation. These high inflation adjusted interest rates are again contributing to a rapid decline in housing activity. After five months of little change, housing permits plunged 16% in June. A 17.4% decline in housing sales during June insures further declines into the summer. Moreover, high interest rates are beginning to reduce capital spending plans. Orders for nondefense capital goods have declined 7.5% in the last two months. With orders now growing much more slowly than shipments, some weakness in capital equipment activity should be expected during the third quarter. Also, construction spending on private nonresidential activity continues to show little growth.

Will the two consecutive quarters of negative GNP growth currently envisioned qualify as a recession? Our current projections suggest that recessionary conditions will not be substantial. Industrial production declined in June, but the magnitude of weakness was inconsequential. Similarly, the index of hours worked declined marginally in June following two months of little change. More

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significantly, the employment diffussion index showed that more than 56% of all industries continued to increase employment in June. Thus, activity in the second quarter was not recessionary despite the negative change in GNP. If interest rates remain high or if the new found strength in consumer activity is very transitory, sufficient economic weakness could develop to constitute a recession. As of this moment, however, this period of sluggish growth should avoid being called a recession.

After two months of declines for M1-B and a comparable two months of very restrained growth in M2, the money supply once again is growing. Interest rates should begin to decline now that the extremely restrictive posture of the Federal Reserve has been moderately eased. Moreover, our estimates suggest that inventory investment was most acute in June. Short-term corporate financing needs soon should moderate. Offsetting these favorable factors that normally would lead to lower interest rates is a continuing lack of savings by households and sharply higher government borrowing. Interest rates should trend downward, but the rate of decline appears to be very modest for the type of sluggish economy that currently prevails.

Quarterly Profile of GNP

	1981-I	1981-II	1981-III	1981-IV	1982-I	1982-II
Real	8.6	-1.9	-1.9	2.1	4.2	1.5
Price	9.8	6.0	7.3	9.8	7.7	8.0
Nominal	19.2	4.0	5.3	12.0	12.2	9.7
Real Gross Private Domestic Product	9.4	-1.9	-1.7	2.2	4.5	1.4

Monthly Statistical Highlights
for July 1981

Payroll employment, +52,000; index of hours worked, -0.2%; household employment, +25,800; unemployment rate, 7.5%; personal income, +1.3%; personal consumption, +1.1%; savings rate, 5.4%; retail sales, +1.1%; automobile sales, 8.2 million units; housing starts, +0.5%; housing permits, -9.4%; construction expenditures, -4.2%; business inventories, +0.4%; orders for durable goods, -0.5%; orders for nondefense capital goods, -4.5%; industrial production, -0.2%; CPI, +0.8%; PPI, +0.2%; consumption deflator, +0.5%; construction deflator, +0.8%; leading indicators, +0.5%; M1-B, 10.8%; M2, +10.3%.

Monthly Statistical Highlights
for August 1981

Payroll employment, -14,000; index of hours worked, -0.2%; household employment, +50,000; unemployment rate, 7.6%; personal income, +0.7%; personal consumption, +0.9%; savings rate, 5.2%; retail sales, +1.0%; automobile sales, 8.2 million units; housing starts, -2.6%; housing permits, -0.8%; construction expenditures, -1.4%; business inventories, +0.4%; durable goods orders, +1.6%; orders for nondefense capital goods, +5.3%; industrial production, -0.2%; CPI, +0.8%; PPI, +0.7%; consumption deflator, +0.7%; construction deflator, +0.8%; leading indicators, -0.2%; M1-B, +8.1%; M2, +12.0%.

Composition Of GNP In Second Quarter Indicates More Weakness Ahead

The most notable GNP composition factor reported for the second quarter was the significant expansion of inventories for durable goods despite a sharp reduction in final sales. Throughout the second quarter automobile producers were shipping cars in excess of a 7 million annual rate to dealers while sales were languishing below the 6 million level. This rapid rate of shipments permitted all the automobile companies to report profits in the second quarter, but the dealers almost certainly will be resisting shipments during the third quarter. Indeed, the shift from a $5.7 billion decline in automobile inventories at inflation adjusted annual rates during the first quarter to a $5.7 billion expansion in the second quarter accounts for all the change in inventories. The auto component of producers' durables also accounted for the entire real rate of decline in that component during the second quarter.

In addition to automobiles, consumption showed weakness for furniture and household appliances and for petroleum based energy. In the investment sector housing fell at a 20.6% inflation adjusted annual rate while prices moderated to only a 4.7% annual gain. Declines in activity should be even more substantial during the third quarter, although our pricing data suggests a modest rebound in residential inflation. While producers' durable equipment excluding automobiles showed little change after adjustments for inflation, the price deflator exploded at a 13.9% annual rate. Structures eased 1.7% after growing rapidly in the winter while prices exploded at a 15.2% annual rate.

Because of underreporting of petroleum imports during the first quarter, inflation adjusted imports showed a 10.2% gain even as GNP was falling in the second quarter. Imports should slow sharply during the summer, possibly leading to a positive contribution to GNP from the net export component.

Most of the inflation adjusted decline in government activity was caused by withdrawal of agricultural loans at the federal level and slumping construction by state and local governments. The construction slump appears to be continuing at least through May, suggesting that further declines in real expenditures are probable for state and local governments during the third quarter. Also, the sharp reduction in CETA employment has had an adverse impact upon value added in state and local governments. The government's proposed sale of corn revenues and the silver stockpile also could lead to a decline in federal expenditures after adjustment for inflation during the third quarter.

Shifts in the composition of expenditures by the federal government are largely responsible for the sharp deviation between the implicit price deflator, which increased 6.0%, and the fixed weighted price index, which grew 7.6%. As these composition shifts are not likely to persist, a significant acceleration in the price indices for federal purchases should lead to some acceleration in the GNP deflator during the third quarter.

Because some source data was not available, the traditional July revision of the GNP accounts was not undertaken. Some of the monthly components were changed, however. First, many of the price indices were shifted to a 1977 base. When the CPI moves to such a base early in 1982, it is presumed that the GNP deflator also will take the 1977 base year. Data from the 1977 census of manufacturers suggests that expenditures for capital equipment are continuing to be understated. On the other hand, rebenching defense shipments to the latest procurement survey indicates that spending on military hardware is being overstated. The traditional adjustment of payroll employment to the March benchmark revealed that the level of employment was being overstated by nearly 300,000 early in 1981 while the direction of the index of hours worked was revised to show growth between the first and second quarters of 1981. While these revisions are not large, they suggest that estimates of productivity have been slightly understated in the last year.

COMMENTARY

Employment

Despite the addition of 150,000 coal miners to the payroll measures in June, payroll employment declined 14,000. Employment weakness continued in the construction industry and in state and local governments, where CETA cutbacks eliminated 100,000 jobs during June.

After overstating the labor force in May, it appears that the household employment survey is understating the work force in June. For example, the participation rate of males 20+ plunged to 78.9% in the June survey. A similar dramatic drop occurred for teenage participation rates. As a result, it is expected that the labor force will show significant growth in July but that employment will lag behind. As a result, unemployment should rise noticeably.

Both the index of hours worked and the hourly earnings index have been rebenched to a 1977 base. This accounts for the unusual difference between forecasted values and current expectations. In June, the hourly earnings index fell to 8.9% above previous year levels. Moreover, the index grew only 7.1% at annual rates during the second quarter. The coal miners strike probably distorted the series, but some evidence of slowing wage inflation is beginning to surface.

Personal Income and Outlays

Personal income in July will be enhanced by two non-recurring events. First, an 11.2% increase in social security benefits will add $16 billion to personal income in July. Second, other labor income will jump an extra $1 billion because coal miners once again are paying royalties into their pension programs. Normally, an increase in social security payments leads to a significant advance in personal savings during the same month. In subsequent months, however, savings tend to decline. This July, however, consumer activity appears to be strengthening. Thus, the improvement in savings activity is not expected to be significant.

Consumption and Retail

A discrepancy has developed between the June report for unit auto sales, the auto component of retail sales, and the durables component of personal consumption. Both unit auto sales and the durables component of personal consumption showed declines in June while the auto sales component of retail sales showed an advance. As the personal consumption figures were generated with more complete information than contained in the advance report for retail sales, it appears that the auto sales component of retail sales will be revised down sharply for June when the July report is released. The price moderation for nondurable goods is beginning to increase activity in that component. In addition, expenditures on services spurted sharply upward during the second quarter (at a 13.5% annual rate). Spending on services almost certainly will slow during the summer but growth in nondurables and the return of some growth in the automobile sector should more than offset this slowing. As a result, the two month decline in consumption spending during April and May should be reversed in the third quarter.

Construction

Interest rates finally caught up with housing in June. Single-family starts fell to 671,000 and could fall slightly further during the third quarter. Multiple family units fell to 361,000. As the number of subsidized units is scheduled to drop sharply, multiple family activity may remain below 400,000 for the remainder of 1981. Even if interest rates begin to moderate late in the year, single-family starts are not expected to return to the 900,000 level that persisted as recently as April until the beginning of 1982. More ominous than the decline in housing starts during June was the dramatic decline in housing permits after four months of no change. Apparently, builders are running out of previously committed funds while purchasers refuse to buy houses at current mortgage rates.

The dramatic sag in public construction from $65 billion in January to $50.8 billion in May was largely concentrated in highways and in hospital and school facilities. Some recovery is expected from these extremely low levels, but the reduction of support from the federal government and extremely high interest rates on municipal bonds should prevent any dramatic gain in activity. High interest rates also led to a reduction in our estimates of private nonresidential construction activity for the remainder of 1981. The 7.6% increase in this activity during the next twelve months is less than the anticipated rate of inflation. However, the reduced projections are consistent with the latest capital anticipations surveys.

Business Activity

The unusual surge in nondefense capital goods reported for May in our last projections has been eliminated by the latest revisions. Of immediate concern is the fact that orders are trailing shipments by more than $1.3 billion. Typically, several months of reductions in the orders backlog leads to production curtailment. Indeed, industrial production in June showed surprising weakness in the capital equipment industries. Such weakness should persist through the third quarter. Shipments now are expected to grow only

7% during the next twelve months, while orders are expected to advance 10.3%. Both estimates are sharply below projections of only a month ago. The adjustments partially reflect the different pattern of nondefense capital activity generated by the revised data, but much of the weakness is caused by unusually high inflation adjusted rates of interest.

Although the growth of business inventories appears to have slowed, all the slowdown reflects a sharp drop in the inventory evaluation adjustment. Indeed, the IVA is expected to fall nearly $8 billion between the second and third quarters before beginning to trend upward again late in the year. With commodity inflation only at 0.3% per month, modest inventory expansion still means significant inventory stockpiles.

Prices

In the twelve months to next May the CPI is expected to grow 7.2%. Most of this slowing of inflationary pressure will be the result of slowing commodity inflation, as the PPI for finished goods is expected to expand 7.4% over the same period. Prices of industrial commodities are expected to grow 8.4% over the same time period. Double-digit inflation is expected to be registered in agricultural prices, as our estimates of those prices show a 12% increase during the next twelve months. Much of the inflationary improvement has occurred in consumer nondurables, where declining energy prices and stable food prices have led to some decline in the deflator between March and May. However, food inflation is reappearing while energy deflation is moderating. Preliminary estimates show that the nondurable deflator started to rise in June. A reevaluation of the energy outlook has caused us to raise our estimates of the nondurables deflator during the next twelve months from a 7% gain to an 8% rate of advance. On the other hand, declining prices for precious metals and home entertainment components has led to a downward revision in the deflator for consumer durables from 6.7% a month ago to 6.2% at the current time. The services deflator continues to be the area of greatest inflation and is expected to register an 8.8% advance in the next twelve months. Because energy expenditures are not expected to continue to decline, composition factors cause the consumption deflator to accelerate from our previous anticipations of 7.7% to 8.1% over the next twelve months.

Financial Markets

Except in June, M2 velocity has been declining consistantly since the beginning of the year. Normally, such a reduction in velocity would lead to reductions in interest rates. However, our estimates for July show a sharp drop in velocity even as short term interest rates were rising. The reason for this decrease in the efficiency of money remains a mystery, although it is possible that the money market fund component of M2 supports asset transfers rather than economic activity. If so, the Federal Reserve's failure to reach its M2 targets can be explained by the distortions that money market funds are creating in M2. Behaviorally, M2 no longer has the same relationship that existed prior to the significant expansion of money market assets.

Notwithstanding this continuing puzzle about the changes in the demand for money, the money supply loosened noticeably in July. If any positive liquity effect was generated by this moderate easing, it was not apparent in the credit market. All interest rates tended to rise, with the worst disaster being generated in the municipals markets. Certainly, a tax saver certificate and a significant tax exclusion for interest income after 1984 significantly reduces the attractiveness of municipal bonds relative to other debt instruments. The ratio between municipal bonds and AAA bonds reached .778 in July and could trend slightly higher. Commercial paper rates remain significantly below federal fund rates. This continues to suggest that higher interest rates are primarily being generated through restrictive issuances of potential reserve. A modest widening between the CD rates and commercial paper rates suggests some aggressive activity by commercial banks in attracting funds. Although many economists have dismissed the latest merger mania, banks establishing lines of credit with the potential players are not certain who will experience the increased loan pressures. The establishment of such lines leads to some aggressive behavior by the banks issuing those lines and some movement toward liquity in their portfolios. In short, the merger mania appears to be having an effect upon credit markets, although the magnititude of the impact remains small.

Because of renewed explosion in money market assets, M2 should be growing well above target during July. If the Federal Reserve responds to this growth by again restricting available reserves, short term interest rates could reach historical highs by September. By that time, however, construction activity will have declined so significantly that funds will be released from that sector. Thus, an interest rate peak is near. The only question is whether rates will spike upward before plunging or whether the current trendless credit markets will slowly reflect diminished construction use of funds and gradually improve. Our projections have opted for the latter outlook, primarily because the spiked interest rate behavior is difficult to generate. Nevertheless, more volatile changes in interest rates cannot be ruled out. In either case, interest rates should be trending downward during the fourth quarter. Indeed, a dramatic drop in rates during the last months of 1981 and early 1982 should not be totally excluded.

Stock Market

Recent stock market declines are not difficult to explain. Our estimates show that operating profits fell by $23 billion during the second quarter. Although the quality of profits improved as a result of a $13 billion easing in the IVA and capital adjustment components, this is not sufficient to prevent a sharp decline in genuine profits. With interest rates trending higher, the only issue is why the stock market has not declined even more dramatically. Indeed, our formula could have justified a 15% break in the value of equities to the 850 level. Apparently, anticipated favorable tax action offset these other adverse effects. Operating profits are expected to erode further during the third quarter while the quality of profits should continue to improve. During the summer months, these influences should offset each other. Therefore, our estimating procedures would suggest that the direction of the stock market depends upon the direction of interest rates at this time. If our interest rate forecasts are close to the mark, equity markets should show little direction during the remainder of the summer. During the fall, all factors turn significantly favorable for equity ownership. Whether these gains can be sufficient to establish new highs in the Dow Jones before the end of 1981 now is problematical. Certainly, our current projections suggest that dramatic increases in equity values are probable in 1982.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Inde	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	91644	91258	126.2	107.9	97927	97927	7.3	7.3	266.3	135.3
March	91645	91347	126.5	108.4	98412	98412	7.3	7.3	268.5	135.8
April	91653	91458	126.2	108.9	98595	98976	7.3	7.3	270.4	136.7
May	91976	91530	126.7	108.9	98804	99235	7.2	7.6	272.3	137.6
June	92287	91516	127.4	108.8	98833	98392	7.3	7.3	274.2	138.2
July	92339	91568	127.5	108.6	99230	98650	7.2	7.5	276.2	139.3
August	92495	91554	127.6	108.4	99400	98700	7.2	7.6	278.3	140.3
September	92624	91646	127.7	108.6	99434	99038	7.3	7.9	280.4	141.4
October	92843	91653	128.0	108.7	99698	98848	7.2	7.9	282.1	142.4
November	92995	91899	128.2	108.9	99847	99162	7.2	7.8	283.9	143.3
December	93090	92068	128.5	109.1	99975	99353	7.2	7.8	285.7	144.2
January 1982	93298	92159	128.7	109.3	100225	99338	7.1	7.9	287.7	145.2
February	93465	92236	129.0	109.3	100477	99598	7.0	7.9	289.8	146.1
March	93747	92405	129.3	109.5	100949	99863	6.9	7.8	291.7	147.0
April	93962	92664	129.7	109.9	101117	100285	7.0	7.6	293.7	147.9
May	94165	92833	130.1	110.1	101227	100548	7.0	7.6	296.0	148.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	2.317	2.318	1.442	1.443	92.3	91.0	1.945	1.947	1.853	1.856
March	2.335	2.340	1.452	1.453	93.3	92.2	1.959	1.965	1.866	1.873
April	2.350	2.354	1.459	1.460	100.3	104.2	1.972	1.976	1.872	1.871
May	2.378	2.368	1.476	1.467	100.1	110.3	1.994	1.985	1.894	1.875
June	2.405	2.382	1.492	1.472	100.8	103.4	2.015	1.995	1.915	1.892
July	2.439	2.413	1.505	1.480	113.7	109.4	2.045	2.022	1.931	1.912
August	2.457	2.430	1.519	1.488	115.1	105.7	2.058	2.035	1.943	1.929
September	2.473	2.452	1.531	1.501	115.9	103.7	2.070	2.051	1.956	1.948
October	2.496	2.476	1.549	1.518	113.6	128.1	2.088	2.087	1.974	1.959
November	2.516	2.494	1.561	1.529	109.2	125.4	2.103	2.101	1.994	1.975
December	2.538	2.510	1.575	1.540	105.4	119.7	2.120	2.112	2.016	1.993
January 1982	2.549	2.527	1.587	1.553	119.2	115.6	2.155	2.125	2.036	2.009
February	2.569	2.543	1.601	1.562	114.3	111.1	2.172	2.136	2.058	2.025
March	2.589	2.563	1.614	1.573	108.5	111.5	2.187	2.152	2.079	2.040
April	2.609	2.584	1.629	1.587	105.0	112.2	2.204	2.169	2.099	2.056
May	2.636	2.603	1.648	1.599	108.2	109.4	2.225	2.184	2.117	2.074

Fore. = May Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C.E.
February 1981	1804.3	1806.9	240.5	237.7	727.0	726.9	836.7	842.4	958.2	959.8
March	1816.8	1824.1	237.3	240.5	725.9	729.6	853.6	853.9	957.2	960.9
April	1822.6	1822.2	228.2	228.8	733.6	732.8	860.5	860.6	952.7	956.0
May	1843.3	1826.0	232.6	226.5	739.9	728.4	870.2	871.1	957.1	953.8
June	1864.2	1842.8	236.7	224.9	746.3	736.8	881.2	881.1	961.9	957.3
July	1880.0	1863.3	238.2	231.3	751.5	742.4	890.3	889.6	963.1	962.7
August	1891.0	1879.9	237.5	233.1	755.3	750.1	898.6	896.7	962.1	964.3
September	1903.7	1898.7	237.8	237.8	759.0	757.5	906.9	903.4	961.5	966.9
October	1921.9	1909.2	241.5	236.9	764.6	762.1	915.8	910.2	964.8	965.0
November	1941.1	1925.7	245.4	240.2	771.5	767.9	924.2	917.6	968.1	966.9
December	1963.0	1942.2	249.3	242.8	780.8	774.6	932.9	924.8	972.8	968.8
January 1982	1982.9	1959.0	253.6	245.0	788.6	781.8	940.7	932.2	974.4	970.9
February	2003.9	1973.7	256.5	247.8	797.5	785.2	949.9	940.7	976.6	972.5
March	2025.4	1988.7	259.3	250.8	806.9	789.1	959.2	948.8	978.9	974.0
April	2044.8	2004.8	262.8	253.0	811.7	794.3	970.3	957.5	981.3	975.5
May	2062.1	2022.1	266.3	256.1	817.9	799.8	977.9	966.2	984.8	977.5

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore	C. E.	Fore.	C. E.
February 1981	86.85	86.81	12.14	12.01	10.5	10.5	58.35	58.48	16.36	16.32
March	86.94	87.61	11.92	12.10	10.4	10.4	58.49	59.18	16.53	16.33
April	85.53	85.86	12.16	11.78	8.6	8.0	59.15	59.50	14.22	14.57
May	87.22	85.31	12.29	11.80	9.2	7.9	59.66	58.76	15.27	14.76
June	88.32	86.37	12.64	11.95	9.3	7.5	60.17	59.46	15.51	14.96
July	88.61	87.29	12.41	12.03	9.4	8.2	60.59	60.03	15.61	15.23
August	89.04	88.12	12.39	12.10	9.5	8.2	60.90	60.65	15.75	15.37
September	89.21	89.28	12.29	12.20	9.5	8.5	61.20	61.25	15.72	15.83
October	90.26	89.54	12.36	12.26	9.7	8.4	61.65	61.62	16.25	15.66
November	91.08	90.40	12.36	12.29	9.8	8.6	62.21	62.09	16.51	16.02
December	92.09	91.25	12.71	12.42	9.7	8.7	62.96	62.63	16.42	16.20
January 1982	93.41	92.09	12.91	12.45	10.0	8.8	63.58	63.21	16.92	16.43
February	94.68	92.69	12.76	12.44	10.4	9.0	64.30	63.49	17.62	16.76
March	96.06	93.36	12.86	12.53	10.7	9.1	65.06	63.80	18.14	17.03
April	96.87	94.04	13.16	12.60	10.7	9.2	65.45	64.22	18.26	17.22
May	98.25	94.85	13.17	12.69	10.8	9.4	66.58	64.67	18.50	17.49

Fore. = May Forecast
C. E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	251.2	251.2	82.21	85.45	20.59	21.19	21.93	23.06
March	253.3	253.5	83.25	86.73	23.56	24.46	22.57	24.00
April	256.0	255.0	82.06	87.18	21.89	24.72	23.02	23.81
May	258.5	256.4	82.49	88.16	22.16	23.87	22.46	24.04
June	261.1	257.8	82.14	87.46	22.67	22.74	22.20	24.09
July	264.7	258.8	84.43	87.35	23.55	22.65	22.69	23.97
August	267.1	259.7	85.97	88.72	24.14	23.85	23.08	23.99
September	269.5	261.5	86.95	90.49	24.49	24.42	23.67	24.13
October	272.1	263.8	87.95	93.08	25.42	24.73	23.85	24.37
November	275.4	265.7	88.16	95.17	24.73	25.22	24.07	24.52
December	277.8	268.3	88.99	95.91	24.91	25.29	23.98	24.79
January 1982	280.6	270.9	91.67	94.61	25.58	24.95	24.43	24.91
February	282.7	273.0	94.85	94.05	26.27	25.16	24.86	25.04
March	285.1	275.8	97.53	94.42	26.93	25.37	25.61	25.23
April	288.9	278.1	99.58	95.91	27.42	25.89	25.96	25.48
May	291.8	280.5	98.47	96.43	27.03	26.32	26.00	25.69

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	470.0	470.8	3.92	3.86	151.1	151.5	79.4	79.8
March	472.7	472.4	4.37	4.16	151.7	152.2	79.5	79.9
April	476.3	474.6	4.26	3.96	151.0	152.2	78.9	80.0
May	479.9	477.8	4.20	3.94	152.5	152.8	79.4	80.1
June	483.4	479.7	4.23	4.04	153.4	152.7	79.6	79.6
July	487.6	481.4	4.32	4.11	153.6	152.5	79.5	79.1
August	490.8	483.1	4.45	4.18	153.2	152.2	79.1	78.8
September	495.1	486.0	4.58	4.39	153.3	152.6	79.0	78.9
October	499.6	491.2	4.65	4.43	153.9	152.7	79.1	78.7
November	502.9	494.4	4.73	4.45	154.7	153.0	79.4	78.7
December	506.7	499.2	4.73	4.51	155.7	153.3	79.7	78.8
January 1982	510.5	504.0	4.80	4.60	156.0	153.5	79.7	78.8
February	514.7	508.4	4.86	4.69	156.5	153.6	79.8	78.8
March	518.6	511.6	4.84	4.77	157.0	153.9	79.8	78.9
April	524.7	514.8	4.92	4.82	159.1	154.6	80.6	79.2
May	529.1	518.2	5.00	4.85	160.9	154.9	81.3	79.3

Fore. = May Forecast
C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	263.2	263.2	262.4	263.3	294.8	295.7	263	145	1.8710	1.8780
March	265.1	265.1	265.3	265.3	298.9	298.9	262	144	1.8848	1.8983
April	267.5	266.8	267.7	267.7	301.6	301.6	262	143	1.8996	1.9024
May	269.8	269.0	270.0	268.9	304.3	304.1	265	142	1.9150	1.9087
June	271.5	271.3	271.7	269.9	306.7	304.7	269	141	1.9306	1.9162
July	273.7	273.5	273.8	270.7	308.5	305.3	272	141	1.9439	1.9283
August	275.8	275.6	276.1	272.6	310.5	306.5	275	143	1.9552	1.9433
September	277.9	277.6	278.2	274.4	312.6	308.4	276	145	1.9665	1.9580
October	279.9	279.4	280.5	276.5	315.9	311.4	276	147	1.9809	1.9759
November	281.9	280.5	282.2	278.2	317.2	313.6	279	148	1.9968	1.9892
December	284.0	281.7	284.5	280.1	318.4	315.8	282	150	2.0124	2.0019
January 1982	286.4	282.6	286.8	281.9	323.6	318.3	285	152	2.0296	2.0138
February	288.8	284.0	289.1	283.6	328.2	321.2	286	153	2.0448	2.0263
March	291.3	285.7	291.5	285.2	332.5	324.1	290	155	2.0600	2.0383
April	293.2	287.1	293.4	287.0	335.6	326.6	292	158	2.0712	2.0519
May	295.1	288.4	295.2	288.8	337.4	329.6	294	159	2.0833	2.0651

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	188.3	188.3	162.4	161.9	199.2	198.9	188.0	188.2	227.9	149.7
March	189.8	189.8	162.7	162.9	200.5	200.9	190.0	189.7	228.8	152.2
April	191.3	190.6	163.8	164.2	201.7	200.2	191.5	190.9	231.1	152.9
May	192.6	191.4	164.6	165.3	202.9	199.9	193.0	192.6	233.4	153.5
June	193.8	192.5	165.1	165.8	204.2	200.5	194.6	194.0	235.6	155.3
July	195.2	193.5	166.0	166.5	205.5	201.3	196.2	195.5	237.2	156.5
August	196.6	194.9	167.0	167.8	206.7	202.6	197.7	197.0	238.4	157.7
September	198.0	196.4	167.8	168.8	207.9	204.1	199.3	198.6	239.7	158.8
October	199.2	197.8	169.2	169.7	209.3	205.8	200.8	200.0	241.6	160.0
November	200.5	199.2	169.9	170.9	210.8	207.1	201.8	201.4	243.7	161.3
December	201.8	200.5	170.6	171.7	212.4	208.7	202.9	202.7	245.8	162.5
January 1982	203.5	201.8	171.5	172.5	214.6	210.2	204.3	204.0	247.7	164.0
February	205.2	202.9	172.7	173.2	217.0	211.5	206.0	205.3	249.5	165.2
March	206.9	204.2	174.0	174.0	219.5	212.9	207.8	206.6	251.2	166.5
April	208.4	205.5	174.9	174.8	220.9	214.4	209.3	208.0	253.0	167.9
May	209.4	206.9	175.7	175.6	221.8	215.9	210.6	209.5	254.7	169.0

Fore. = May Forecast
C. E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	1.214	1.215	0.793	0.791	1.165	1.165	252.5	254.5	110.8	170.0
March	1.284	1.297	0.817	0.838	1.128	1.153	253.2	250.3	110.7	164.5
April	1.215	1.322	0.790	0.900	1.076	1.186	250.5	248.9	108.4	162.8
May	1.162	1.159	0.747	0.767	1.005	1.182	249.8	237.3	107.0	154.6
June	1.139	1.032	0.727	0.671	0.992	0.976	248.9	241.8	105.6	155.7
July	1.246	1.068	0.783	0.693	1.063	0.968	250.2	239.2	105.5	152.8
August	1.392	1.040	0.846	0.688	1.142	0.985	253.9	235.9	106.5	149.6
September	1.400	1.101	0.897	0.743	1.231	1.006	261.1	235.2	108.9	148.1
October	1.372	1.154	0.877	0.772	1.239	1.008	264.7	237.9	109.6	148.7
November	1.368	1.197	0.873	0.806	1.228	1.042	267.8	242.0	109.9	150.0
December	1.373	1.287	0.883	0.881	1.239	1.069	269.2	247.7	109.5	152.4
January 1982	1.501	1.307	0.991	0.902	1.317	1.127	276.2	258.9	111.5	157.9
February	1.467	1.358	0.967	0.943	1.336	1.183	277.1	259.5	111.1	157.1
March	1.559	1.403	1.034	0.975	1.412	1.224	283.0	265.5	112.7	159.5
April	1.576	1.433	1.061	1.008	1.426	1.251	286.8	270.4	113.4	161.0
May	1.615	1.427	1.095	1.005	1.457	1.276	293.7	274.0	115.3	162.1

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	91.4	93.5	60.1	61.3	101.0	99.7
March	93.0	93.3	62.5	60.6	97.7	96.3
April	93.7	94.2	62.6	56.4	94.2	98.3
May	94.5	92.4	64.2	50.8	91.1	94.1
June	94.4	93.6	65.4	54.3	89.1	93.9
July	95.7	94.0	65.9	56.1	88.6	89.1
August	97.5	94.4	65.5	57.5	90.9	84.0
September	99.7	95.1	65.7	58.1	95.7	82.0
October	100.6	95.0	66.5	59.0	97.6	83.9
November	101.7	96.1	67.3	59.5	98.8	86.4
December	101.1	97.2	68.1	60.3	100.0	90.2
January 1982	104.9	100.5	68.6	63.2	102.7	95.2
February	103.2	99.2	68.9	61.7	105.0	98.6
March	106.5	100.9	69.2	62.5	107.3	102.1
April	107.5	102.2	69.6	63.5	109.7	104.7
May	108.8	103.5	70.1	63.0	114.8	107.5

Fore. =May Forecast
C.E. =Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	-2158	-2158	135.2	135.8	2817	2853	1506	1519	44.1	42.4
March	+485	+485	137.1	137.2	2859	2875	1517	1515	52.9	51.2
April	-1632	-2471	137.4	137.5	2883	2875	1518	1511	49.6	37.1
May	-1329	-2450	136.8	135.5	2908	2870	1519	1504	46.1	25.6
June	-1481	-2130	136.3	133.8	2937	2899	1521	1513	41.7	13.2
July	-643	-1353	136.9	134.5	2963	2900	1524	1504	40.3	14.2
August	-973	-1266	137.5	134.2	2982	2913	1525	1499	44.9	10.0
September	-1263	-1352	138.1	135.0	3001	2942	1526	1503	54.0	16.2
October	-1205	-1169	138.9	135.4	3035	2971	1532	1504	43.7	22.6
November	-1396	-1425	139.6	135.9	3061	3003	1533	1510	41.8	26.0
December	-1503	-1653	140.4	136.4	3091	3033	1536	1515	42.3	27.1
January 1982	-1613	-1576	140.2	137.5	3130	3067	1542	1523	44.6	22.4
February	-1504	-1659	140.6	137.2	3158	3091	1547	1526	45.7	24.9
March	-1572	-1635	141.4	137.9	3185	3112	1553	1527	46.3	26.8
April	-1503	-1826	142.0	139.0	3228	3137	1559	1529	41.7	23.5
May	-1413	-1792	142.5	139.7	3266	3162	1568	1531	40.4	23.7

Fore. = May Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	163.3	163.3	417.3	421.2	1692.2	1695.7	15.93	15.93	14.05	14.05
March	164.2	164.0	421.6	425.8	1714.0	1718.4	14.70	14.70	12.81	12.81
April	165.5	165.7	429.5	433.7	1736.9	1737.7	16.89	15.72	13.69	13.45
May	166.5	166.2	430.7	431.5	1753.8	1743.0	19.03	18.52	14.42	15.29
June	167.4	166.8	433.4	428.5	1771.9	1749.3	19.46	19.10	14.94	14.09
July	168.3	167.4	434.2	431.3	1782.5	1763.6	17.68	19.25	14.43	14.71
August	169.1	168.5	434.9	434.1	1787.9	1780.3	16.01	18.66	13.98	14.53
September	169.9	169.4	435.6	436.9	1793.5	1795.3	14.67	17.92	13.62	14.03
October	171.1	170.5	439.1	440.2	1814.6	1812.5	15.43	17.48	13.46	13.73
November	172.3	171.3	442.2	441.3	1831.9	1822.5	14.91	15.96	12.86	12.96
December	173.5	172.4	445.3	445.0	1849.2	1841.4	13.67	14.83	12.53	12.72
January 1982	174.0	173.1	446.5	448.7	1860.5	1860.4	13.47	15.05	12.42	12.93
February	174.6	174.2	447.2	450.7	1867.8	1872.4	13.45	15.02	12.58	12.99
March	175.2	175.0	448.0	452.0	1875.3	1881.5	12.86	13.97	12.38	12.43
April	176.8	175.8	454.6	454.6	1903.6	1896.1	12.43	13.65	11.65	12.01
May	178.4	176.7	459.1	457.8	1929.2	1913.2	12.05	13.72	11.16	11.94

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1981	13.35	13.35	10.10	10.10	15.49	15.49	16.14	16.14	19.43	19.43
March	13.33	13.33	10.38	10.16	13.94	13.94	14.43	14.43	18.05	18.05
April	14.02	13.88	10.92	10.62	16.09	14.56	16.65	15.08	18.30	17.15
May	14.66	14.32	11.36	10.78	18.46	17.56	18.95	18.27	20.43	19.61
June	14.37	13.75	11.07	10.59	19.03	16.32	19.52	16.90	20.50	20.03
July	14.16	14.33	10.88	11.15	17.08	17.05	17.65	17.78	19.76	20.36
August	14.05	14.42	10.75	11.25	15.92	16.82	16.51	17.43	19.08	20.05
September	13.82	14.27	10.53	11.15	14.58	16.29	15.09	17.02	17.63	19.73
October	13.85	14.11	10.53	11.01	15.37	15.96	15.86	16.63	17.50	19.17
November	13.61	14.02	10.34	10.87	15.05	14.92	15.52	15.48	17.50	18.63
December	13.58	13.63	10.29	10.52	13.82	14.62	14.29	15.13	17.23	17.92
January 1982	13.35	13.56	10.13	10.44	13.51	14.89	14.03	15.41	17.00	17.75
February	13.31	13.71	10.01	10.54	13.26	15.01	13.59	15.67	16.65	17.75
March	13.15	13.42	9.86	10.33	12.75	14.27	13.42	14.93	16.26	17.42
April	13.05	13.27	9.77	10.19	12.29	13.56	12.73	14.26	15.23	17.25
May	12.96	13.35	9.72	10.21	11.88	13.62	12.41	14.25	15.00	17.25

Fore. = May Forecast
C.E. = Current Expectations

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MONTHLY PROJECTIONS
FOR AUGUST

DESPITE STRENGTHENING CONSUMER ACTIVITY, IS IT A RECESSION?

Earlier moderation in inflationary pressures, a boost in social security benefits, and anticipations of tax reductions appear to have brought the consumer back into the market place. In July, consumer expenditures increased 1.2%. Real consumption activity increased 4.5% at annual rates even after an accelerated 0.8% gain in the consumption deflator. Dealer incentives for automobiles in August should sustain the consumer surge. In the first twenty days of August domestic auto sales averaged a 7.5 million seasonally adjusted rate. Indeed, our estimates of automobile activity in August, and therefore our estimates of consumption spending, could be substantially understated. An increase of 2% in retail sales in August is possible. Without tax reductions, a post rebate slump in autos could be anticipated, as the personal savings rate is again falling below 5%. However, changes in withholding schedules and annual increases in payrolls for government employees during October should continue to generate consumer support for the economy.

Except for the consumer, economic activity would be slumping sharply at the present time. First, a mild inventory excess that developed in the second quarter is being removed during the summer. Indeed, a substantial portion of auto sales is being supported by previously accumulated auto inventories. Housing activity is slumping sharply. Although housing starts moved up modestly in July on the basis of expanded activity for multi-families, housing permits continue to slump. Furthermore, mortgage rates remain above 17% and show no early signs of easing. Sales of previously-owned homes fell to an annual rate of 2.5 million in July, only marginally above the weakest levels attained in 1980. Shipments of defense goods were flat in July while shipments of nondefense capital goods slipped 1.8% in June. Fortunately, expanding orders for nondefense capital goods finally rose above shipments. Thus, backlogs increased in July after a two month slump. International trade also looks weak, despite the oil induced drop in imports during July. In fact, the United States might experience no growth in trade after adjustment for inflation during the next 18 months. Public construction continues to seek a bottom after plunging sharply during the first half of 1981. Turmoil in the municipals market is not providing support for that area of construction.

Except for the consumer and for defense expenditures later in the summer, evidence of strength in the economy is difficult to uncover. If auto consumption does not sag as sharply as anticipated in this report, inflation adjusted GNP during the third quarter could be very close to unchanged. However, this strength would borrow from the fourth quarter, which already is showing a decline. Thus, this period of economic stagnation could qualify as a recession. At this moment, however, economic weakness is not sufficently widespread to justify that title.

Credit markets are in a complete shambles. Aaa rated corporate bonds have seen more than a percentage point increase in yields in the last two months. In the municipals market the increase has been more than a staggering 2 percentage points. Indeed, the ratio of municipals to Aaa's is now above .87, the highest rate ever recorded in the post war period.

Modest monetary growth resumed in July at 4.3% for M1-B and 8.3% for M-2 after a two month hiatus. In August, the annualized growth rates appear to be more than 11% and 15% respectively. This rapid growth has moderated increases in federal funds, but has done little to ease other sensitive short-term interest rates. One hopeful condition is the flattening of the yield curve. In the past, such a flattening of the yield curve led to strengthening of long-term bond prices. Of course, none of these previous rallies were sustained. Nevertheless, the present juxtaposition of short and long term rates suggest that a near-term rally in long-term bonds is likely. As we have also reduced our estimates of economic activity in the next six months, interest rates should fall more substantially than anticipated in our August forecast. By mid-October, after the rotation of our resources from the public to the private sector begins to take affect, a more sustained easing in interest rates seems likely.

Quarterly GNP Profile

	1981-I	1981-II	1981-III	1981-IV	1982-I	1982-II
Real	8.6	-2.4	-1.7	-0.9	3.4	4.0
Price	9.8	6.6	7.8	8.9	7.7	7.9
Nominal	19.2	4.1	5.9	7.9	11.4	12.2
Real Gross Private Domestic Product	9.4	-2.0	-1.5	-1.0	3.3	3.8

Monthly Statistical Highlights
for August 1981

Payroll employment, +161,000; index of hours worked, +0.1%; household employment, +191,000; unemployment rate, 7.2%; personal income, +0.8%; personal consumption, +1.2%; savings rate, 5.1%; retail sales, +1.6%; automobile sales, 9.2 million units; housing starts, -2.7%; housing permits, -2.5%; construction expenditures, -2.2%; business inventories, +0.3%; orders for durable goods, +2.6%; orders for nondefense capital goods, -1.5%; industrial production, +0.1%; CPI, +1.0%; PPI, +0.7%; consumption deflator, +0.6%; construction deflator, 0.7%; leading indicators, -0.5%; M1-B, 11.1%; M2, 15.2%.

Monthly Statistical Highlights
for September 1981

Payroll employment, +162,000; index of hours worked, +0.1%; household employment, 174,000; unemployment rate, 7.3%; personal income, +0.8%; personal consumption, +0.5%; savings rate, 5.4%; retail sales, -0.2%; automobile sales, 8.3 million units; housing starts, -5.0%; housing permits, -3.8%; construction expenditures, -0.5%; business inventories, +0.7%; orders for durable goods, +0.8%; orders for nondefense capital goods, +2.0%; industrial production, +0.1%; CPI, +0.9%; PPI, +0.6%; consumption deflator, +0.9%; construction deflator, +0.8%; leading indicators, +0.5%; M1-B, 4.2%; M2, 8.0%.

COMMENTARY

Employment

Surprising strength was measured by employment surveys during July. Payroll employment increased 383,000. 108,000 of that gain was distributed between durable and nondurable goods industries. Strength was especially notable for primary metals, the machinery industries, and apparel. Strength in retail trade was confirmed by a 84,000 expansion in retail trade and an 11,000 gain in wholesale trade. Services also experienced an 85,000 gain. No CETA cutbacks were apparent in state and local payrolls, which expanded 73,000 during July. The air controllers work action will lower federal employment by 12,000 in August and reduce transportation service payrolls by 20,000 in September. An extended period of adjustment could lead to some weakness in aerospace activity, but that problem should not surface before the middle of next year. Although the manufacturing workweek declined slightly, manufacturing payrolls appear to be in reasonable balance. Further expansion in payrolls is expected during the remainder of the summer.

Participation rates for all major labor force segments remained surprisingly low in July. Some upward correction from the 78.9% rate for males 20+ is expected by September. Also, the 54.2% participation rate for teenagers is more than 3 percentage points below normal preformance. Thus, a significant expansion in the labor force is anticipated in the next few months. Although employment is also expected to grow, this change in labor force should lead to notice bly higher unemployment rates. Initial unemployment claims during the early weeks of August show a slight upward trend, suggesting that payroll employment will be expanding less than the 175,000 considered normal at the present time. On the other hand, unemployment claims are not rising dramatically, as they would if a recession was developing. Indeed the diffusion index shows that 64% of all industries covered in the BLS survey experienced employment increases during the month of July.

Strong employment growth led to a 0.6% increase in the index of hours worked during July. Even construction showed some imporvement in the month. The hourly earnings index continued to grow at a restrained rate, expanding only 8.8% during the last year. Moderate changes in the consumer price index during the second quarter probably caused a significant part of the slowing in this index. As that CPI slowing no longer is developing, further moderation in the hourly earnings index will not be substantial.

Personal Income and Outlays

As expected, personal income surged a strong 1.6% in July with the aid of Social Security benefit increases and an upward adjustment in other labor income which reflected renewed royalty payments by coal miners. As expected, only a portion of this increase in personal income was converted into consumption during the month. Although retail sales grew 1.3% and consumption expanded 1.2%, the personal savings rate increased to 5.6%. This increased savings base aided the success of auto incentive programs in August, which may again be driving savings down to 5%. As a result, consumer activities should be relatively sluggish in September, prior to the tax reductions.

Consumption and Retail

Sharp increases in used car sales and used car prices appear to be the cause for an apparent discrepancy between unit auto sales, the auto sales component of retail sales, and durable goods purchases in the personal consumption portion of personal income. The incentive induced increases in auto sales during August should increase the supply of used cars, leading to some moderation in their price growth and to some slowing in retail auto sales relative to estimates of unit auto sales. Nevertheless, our estimate of 8.8 million unit sales in August appears to be too low. In order to distribute this commentary in a timely fashion, we have not been able to adjust our estimates upward to reflect a much higher level of auto sales during August. It is clear, however, that consumption is growing very strongly in August and may not yet slump as sharply in September as we currently are showing. If so, economic activity in the third quarter will be as much as a percentage point higher than we orginally expected. Aside from increasing auto sales, sharp price increases for nondurables and services appear to account for most of the estimated gains in those components of consumption during the summer. For example, prices of nondurables and services rose 0.6% and 1.1% respectively in July. This compares with expenditures gains of 0.7% and 1.0% during the same month. The August experience appears to be similar.

Construction

High interest rates are continuing to depress housing sales in the third quarter. However, housing starts showed unexpected increases during July. These increases probably were temporary, however, and should give way to resumed decreases in housing activity through September. Moreover, the initial rebound projected for housing activity may be extremely sluggish. Indeed, housing starts in the fourth quarter have been revised downward by more than 100,000 from our forecast of less than a month ago.

The July increase in housing starts should have no noticeable effect upon the downtrend in residential construction expenditures. Indeed, expenditures in July are expected to drop sharply to $85.9 billion from $91.9 billion in June. Public construction probably has reached bottom, but no significant recovery is anticipated. Both budgetary restraint and a difficult bond market should restrain growth in public expenditures. Expenditures for private and nonresidential structures also probably have bottomed out as changed depreciation guidelines are now law. Therefore, a potential source of uncertainty has been removed. Of course, high interest rates are restraining all capital expenditures and should prevent private nonresidential activity from growing more rapidly than contained in our forecast. Over the next year, expenditures for private nonresidential construction are expected to increase 10.1%.

Business Activity

Manufacturing inventories showed no growth in June, as finished goods were pushed out to the wholesale and retail level and the stock-pile of materials began to be reduced. Moderate gains in manufacturing inventories are expected through the third quarter. Inventories outside the manufacturing sector show some signs of excess, especially in durable trade. Strong growth in sales should remove most of those excesses before the end of the third quarter.

Orders for durable goods have continued to expand with the aid of foreign orders for transportation equipment and orders for durable materials. In July, orders for materials showed no growth, but orders for nondefense captial goods increased sharply. That increase in orders for capital goods finally lifted the change in orders above the level of shipments. Thus, activity in the capital goods industry should intensify after the sharp decline in shipments that occurred in July. Defense orders also increased sharply in July, while shipments remained unchanged. Strong gains in shipments are expected later in the quarter and in subsequent months. On the other hand, strong July gains in orders for capital goods could lead to lower gains for durable goods in August and September than currently contained in our projections.

The July expansion in payrolls was not reflected in industrial activity. Although industrial production expanded 0.3%, this strength was the result of expanding production for energy material as a result of the return to coal production. Either productivity will be declining noticeably during the summer or industrial production is being misestimated at the present time. At any rate, modest gains in industrial production are expected in the next few months, with most of the strength coming from consumer goods and business equipment.

Prices

The surprising 1.2% expansion in consumer prices during July has necessitated a slight revision in most of our consumer prices for the next twelve months. Most of the increase in CPI above our anticipations was in home prices, a component that has little impact upon the PPI for finished goods or any of the consumer deflators. However, higher interest rates over the next twelve months that had been expected in our forecast should lead to higher charges for imputed financial services than previously was contained in the consumer deflator. On the other hand, price concessions for automobiles may lower the growth of prices for consumer durables during the next year.

Financial Markets

Disaster struck the long-term credit markets and the stock exchange in August. The price collapse in long-term government and corporate bonds and the dramatic evaporation of all meaningful market actions in the municipals markets was truly unprecedented. In a single month, long-term bonds saw yields rise more than a percentage point while tax-free instruments exhibited yield increases in excess of 2 percentage points. To a large extent these increases were not generated by dramatic movements of short-term interest rates. Although treasury bills showed significant price advances, other sensitive prices showed very little change. Indeed, the federal funds rate in August traded below the federal funds rate that was established in July. Now that the yield curve has flattened considerably, dealers are able to finance existing bond inventories at little cost. Of course, they still face considerable price risk. A flattening of the yield curve was a first step towards returning normal activity to the credit markets. In this respect, the dramatic upsurge in long-term rates can be viewed as shortening the time until a sustained bond market rally can commence.

The Federal Reserve unquestionably has eased its reins upon monetary growth. After a spring of virtually no growth in most monetary aggregates, all the M's are growing again. In August, growth may be very significant. (Once again, the old chicken and egg question must be addressed--did money expansion stimulate consumer activity or were deposits increasing to reflect heightened consumer transactions?).

The municipals calendar remains heavy, the potential corporate calendar is significant, and government borrowings are extensive. Indeed, tax reductions from the Economic Recovery Act reduced corporate tax liabilities by $3.4 billion during the first quarter at annual rates and by $4.7 at annual rates during the second quarter. This modification in tax liabilities will be reflected in corporate estimated income statements in mid-September. Thus, treasury borrowings in September and October should be unusually heavy. Despite these problems, an interest rate peak is beginning to develop. Indeed, the prolonged period of economic weakness currently envisioned should lead to lower interest rates by the middle of 1982 than we had incorporated in our August forecast.

Stock Market

While the averge Dow Jones index for the third quarter contained in our forecast was about 962, this estimate exceeded the 900 generated by our formula. At the time of the forecast, we felt the market could not fall abruptly enough to justify the lower estimates. For once, the computer appears to have been more correct than the analyst. If interest rates begin to decline after the middle of October, as we expect, continued erosion in corporate operating profits should not be sufficient to restrain higher equity values at that time. However, a re-acceleration of inflationary pressures will lead to rising IVA conditons by the fourth quarter. Thus, the quality of profits and the quantity of operating profits could be declining through the end of 1981, but the interest rates that provide competition for stock yields will be trending downward before the end of this year. In general, the effect is almost a wash. In 1982, however, our projections show a further decline in interest rates, improving economic activity, and little further erosion in the quality of profits. Under those circumstances, a significant stock market advance still seems likely.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	91347	91347	108.4	108.4	98412	98412	7.3	7.3	135.8	135.8
April	91458	91458	108.9	108.9	98976	98976	7.3	7.3	136.7	136.7
May	91530	91564	108.9	108.9	99235	99235	7.6	7.6	137.6	137.7
June	91516	91583	108.8	108.8	98392	98392	7.3	7.3	138.2	138.3
July	91525	91966	108.6	109.5	98675	98962	7.5	7.0	139.1	138.9
August	91410	92101	108.4	109.6	98623	99101	7.6	7.2	140.0	139.8
September	91385	92262	108.3	109.7	98661	99292	7.7	7.3	140.8	140.7
October	91436	92424	108.4	109.8	98763	99466	7.8	7.4	141.8	141.7
November	91529	92586	108.6	109.9	98906	99669	7.9	7.4	142.8	142.8
December	91664	92671	108.9	110.0	99091	99773	7.9	7.5	143.9	143.9
January 1982	91773	92839	109.1	110.2	99123	100000	7.8	7.5	144.9	144.9
February	91891	93002	109.3	110.3	99283	100148	7.9	7.5	145.8	145.8
March	91973	93086	109.5	110.4	99407	100298	7.9	7.5	146.9	146.5
April	92127	93176	109.6	110.6	99557	100522	8.0	7.5	147.9	147.6
May	92315	93345	109.8	110.8	99782	100614	7.9	7.6	149.0	148.7
June	92491	93519	110.1	111.1	99971	100871	7.8	7.6	150.2	149.6

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	2.340	2.340	1.453	1.453	92.2	92.2	1.965	1.965	1.873	1.873
April	2.354	2.354	1.460	1.460	104.2	104.1	1.976	1.976	1.871	1.871
May	2.368	2.368	1.467	1.467	110.3	108.1	1.985	1.986	1.875	1.878
June	2.382	2.385	1.472	1.472	103.4	103.4	1.995	1.997	1.892	1.894
July	2.412	2.422	1.480	1.482	111.3	113.0	2.022	2.029	1.911	1.916
August	2.428	2.441	1.486	1.492	109.6	104.9	2.035	2.043	1.926	1.938
September	2.449	2.461	1.493	1.502	111.1	110.7	2.053	2.058	1.942	1.947
October	2.471	2.486	1.514	1.519	124.2	137.4	2.083	2.100	1.959	1.963
November	2.487	2.507	1.523	1.531	119.4	133.9	2.096	2.116	1.977	1.982
December	2.502	2.526	1.532	1.543	113.7	134.8	2.108	2.129	1.995	1.994
January 1982	2.517	2.545	1.546	1.556	106.4	131.9	2.119	2.143	2.013	2.011
February	2.537	2.562	1.560	1.566	112.0	128.4	2.135	2.156	2.023	2.028
March	2.556	2.579	1.574	1.574	119.2	126.5	2.150	2.168	2.031	2.042
April	2.575	2.601	1.586	1.587	113.5	126.2	2.165	2.185	2.052	2.059
May	2.596	2.622	1.599	1.600	108.2	126.1	2.181	2.200	2.073	2.074
June	2.617	2.644	1.613	1.613	102.6	125.5	2.197	2.216	2.095	2.091

Fore. = August Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	1.297	1.297	0.838	0.838	1.153	1.153	250.3	250.3	164.5	164.5
April	1.322	1.322	0.900	0.900	1.186	1.186	248.9	248.9	162.8	162.8
May	1.159	1.158	0.767	0.764	1.182	1.167	239.7	239.7	156.2	156.2
June	1.032	1.021	0.671	0.679	0.976	0.963	236.2	236.2	153.7	153.7
July	1.015	1.055	0.653	0.691	0.923	0.924	231.8	231.5	149.1	149.2
August	1.024	1.027	0.674	0.672	0.923	0.901	228.7	226.4	145.9	144.9
September	1.081	0.976	0.737	0.630	0.963	0.867	227.8	225.2	144.5	143.0
October	1.138	1.018	0.774	0.656	1.007	0.913	229.1	225.6	144.3	142.3
November	1.193	1.094	0.815	0.693	1.051	0.962	232.0	226.1	145.0	141.7
December	1.263	1.146	0.871	0.754	1.111	1.005	236.5	228.6	146.6	142.2
January 1982	1.352	1.220	0.948	0.789	1.193	1.092	244.8	236.3	150.8	146.0
February	1.333	1.240	0.947	0.852	1.143	1.095	244.0	239.3	149.5	147.2
March	1.392	1.304	0.973	0.908	1.208	1.142	250.9	244.7	152.8	149.5
April	1.380	1.337	0.955	0.919	1.200	1.176	255.1	250.5	154.1	151.9
May	1.399	1.373	0.962	0.931	1.227	1.205	259.0	255.2	155.3	153.5
June	1.463	1.439	1.014	1.023	1.297	1.269	262.5	260.6	156.2	155.5

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	93.3	93.3	60.6	60.6	96.3	96.3
April	94.2	94.2	56.4	56.4	98.3	98.3
May	94.0	94.0	51.5	51.5	94.3	94.3
June	93.8	93.8	51.3	51.3	91.1	91.1
July	94.0	94.1	51.1	51.5	86.7	85.9
August	94.5	94.6	51.0	51.2	83.2	80.6
September	94.9	95.0	51.4	51.5	81.5	78.7
October	95.5	95.3	51.6	52.0	82.0	78.3
November	96.1	95.9	51.3	52.3	84.6	77.9
December	96.8	96.5	51.4	52.0	88.3	80.1
January 1982	98.9	98.8	52.3	53.5	93.6	84.0
February	98.0	97.9	52.0	53.0	94.0	88.4
March	100.2	99.7	53.1	53.4	97.6	91.6
April	101.3	101.0	53.3	53.9	100.5	95.6
May	102.4	102.1	53.6	54.3	103.0	98.8
June	103.4	103.3	53.7	55.0	105.4	102.3

Fore. = August Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	1824.1	1824.1	240.5	240.5	729.6	729.6	853.9	853.9	960.9	960.9
April	1822.2	1821.7	228.8	229.4	732.8	733.9	860.6	858.4	956.0	955.8
May	1826.0	1827.7	226.5	226.4	728.4	731.5	871.1	869.9	953.8	953.8
June	1842.8	1843.6	224.9	225.3	736.8	738.3	881.1	880.0	957.3	956.3
July	1859.4	1865.0	229.5	233.2	741.5	743.1	888.4	888.7	960.4	959.9
August	1877.7	1886.7	235.1	240.5	746.1	749.3	896.5	896.9	963.9	964.9
September	1893.3	1895.5	237.1	235.9	751.6	754.6	904.6	905.0	966.0	961.4
October	1912.6	1910.5	240.2	238.2	761.1	759.9	911.3	912.4	969.4	962.9
November	1928.3	1928.6	240.9	242.4	768.5	766.3	918.9	919.9	970.9	966.5
December	1939.6	1940.2	242.2	240.2	771.1	772.4	926.3	927.6	970.3	966.3
January 1982	1957.5	1956.6	245.1	245.8	778.3	775.5	934.1	935.3	972.9	969.2
February	1971.5	1972.4	247.5	247.1	780.5	781.3	943.5	944.0	974.1	971.6
March	1984.3	1985.7	249.3	249.2	782.1	784.2	952.9	952.3	974.6	972.9
April	2003.7	2002.6	252.5	251.3	789.4	790.6	961.8	960.7	977.9	975.5
May	2021.2	2017.1	255.4	253.7	795.3	794.5	970.5	968.9	979.7	976.5
June	2038.7	2033.0	258.3	257.4	801.2	799.8	979.2	975.8	981.6	978.3

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	87.61	87.61	12.10	12.10	10.4	10.4	59.18	59.18	16.33	16.33
April	85.86	85.86	11.78	11.78	8.0	8.0	59.50	59.50	14.57	14.57
May	85.31	85.50	11.80	11.75	7.9	7.9	58.76	58.97	14.76	14.79
June	86.37	86.94	11.95	11.93	7.5	7.6	59.46	59.54	14.96	15.48
July	88.27	88.03	12.04	11.96	8.2	8.2	59.95	59.61	16.28	16.47
August	88.74	89.44	12.06	12.00	8.4	8.8	60.32	60.11	16.36	17.33
September	89.04	89.29	11.96	12.08	8.4	8.3	60.77	60.53	16.31	16.68
October	89.93	90.00	12.05	12.16	8.6	8.5	61.54	60.96	16.34	16.88
November	90.83	91.02	12.26	12.27	8.7	8.7	62.13	61.47	16.44	17.28
December	91.10	91.24	12.39	12.23	8.7	8.6	62.35	61.96	16.36	17.05
January 1982	92.09	92.18	12.43	12.32	8.8	8.9	62.93	62.21	16.73	17.65
February	92.58	92.80	12.38	12.40	8.9	9.0	63.10	62.67	17.10	17.73
March	93.03	93.29	12.33	12.45	9.0	9.1	63.23	62.91	17.47	17.93
April	94.15	94.06	12.50	12.51	9.1	9.2	63.82	63.42	17.83	18.13
May	94.88	94.66	12.63	12.60	9.2	9.3	64.30	63.73	17.95	18.33
June	95.61	95.54	12.76	12.68	9.3	9.5	64.78	64.16	18.07	18.70

Fore. = August Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	266.5	266.5	86.73	86.73	24.46	24.46	24.00	24.00
April	267.6	267.5	87.18	87.18	24.72	24.72	23.81	23.81
May	269.3	269.3	88.16	88.16	23.87	23.87	24.04	24.04
June	270.7	269.3	87.46	88.30	22.74	23.23	24.09	24.60
July	271.8	270.5	89.93	89.12	23.62	24.66	24.21	24.16
August	273.0	271.4	91.27	91.47	24.15	24.29	24.35	24.32
September	274.2	273.2	93.46	92.19	24.61	24.78	24.48	24.47
October	275.5	274.4	95.21	92.62	24.52	24.92	24.63	24.60
November	276.6	275.9	96.05	94.35	24.95	25.37	24.84	24.75
December	277.5	276.7	96.54	94.26	25.42	25.35	25.01	24.92
January 1982	278.9	278.0	95.95	95.85	25.11	25.65	25.19	25.13
February	279.6	279.1	96.92	96.63	25.32	25.42	25.33	25.29
March	280.8	280.2	98.23	97.21	25.93	26.18	25.52	25.63
April	281.6	281.0	100.21	98.67	26.25	26.42	25.76	25.69
May	283.0	282.5	99.56	100.05	26.15	26.78	26.15	26.00
June	284.1	283.6	100.52	99.14	26.20	26.55	25.93	26.12

	Busines Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	485.5	485.5	4.16	4.16	152.2	152.2	79.9	80.0
April	488.2	487.1	3.96	3.96	152.2	152.2	80.0	80.1
May	490.3	490.3	3.94	3.94	152.8	153.0	80.1	80.2
June	493.0	493.5	4.04	4.11	152.7	152.9	79.6	79.7
July	495.8	495.7	4.08	4.12	152.3	153.4	79.5	79.6
August	497.4	497.3	4.15	4.21	150.5	153.6	77.6	79.4
September	499.5	500.8	4.23	4.29	148.3	153.8	76.8	79.1
October	501.0	503.1	4.29	4.35	148.9	154.1	77.0	79.1
November	503.2	505.6	4.35	4.33	149.8	154.3	77.3	79.0
December	505.9	507.3	4.41	4.40	150.5	154.4	77.6	78.8
January 1982	508.1	509.8	4.47	4.45	151.1	154.8	77.8	78.8
February	510.2	512.0	4.58	4.53	151.9	155.1	78.0	78.8
March	512.5	514.3	4.69	4.60	152.7	155.4	78.2	78.7
April	514.6	515.8	4.73	4.68	153.5	155.8	78.4	78.8
May	517.2	518.6	4.83	4.85	154.5	156.1	78.7	78.8
June	519.9	520.6	4.92	4.84	155.5	156.5	79.0	78.9

Fore.= August Forecast
C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	265.1	265.1	265.3	266.0	298.9	299.6	144	144	1.8983	1.8983
April	266.8	266.8	267.7	267.7	301.6	301.6	143	143	1.9024	1.9032
May	269.0	269.0	268.9	268.9	304.1	304.1	142	142	1.9087	1.9119
June	271.3	271.3	269.9	269.9	304.7	304.7	141	142	1.9162	1.9200
July	273.5	274.4	270.7	271.3	305.5	306.0	141	141	1.9308	1.9350
August	275.7	276.5	271.8	272.4	306.7	307.2	143	142	1.9450	1.9471
September	277.6	279.0	273.2	274.7	307.9	308.5	145	144	1.9580	1.9617
October	279.0	281.3	275.5	277.6	311.2	312.0	147	146	1.9749	1.9778
November	280.3	282.6	276.3	279.0	313.6	314.3	148	147	1.9885	1.9896
December	281.6	284.4	277.8	281.0	316.0	316.5	149	150	2.0016	2.0021
January 1982	283.3	285.7	279.6	282.7	318.3	318.8	150	150	2.0144	2.0142
February	285.1	286.9	281.6	284.0	320.2	320.9	153	152	2.0294	2.0269
March	286.9	288.2	283.8	285.5	322.1	322.9	156	154	2.0399	2.0395
April	288.7	289.7	285.7	287.2	324.0	324.8	157	155	2.0529	2.0521
May	290.5	291.4	287.8	289.0	326.6	326.9	159	157	2.0631	2.0658
June	292.2	293.0	289.7	290.9	329.1	329.3	160	158	2.0760	2.0792

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	189.8	189.8	162.9	162.9	200.9	200.9	189.7	189.7	152.2	152.2
April	190.6	190.6	164.2	164.3	200.2	200.3	190.9	190.9	152.9	152.9
May	191.4	191.6	165.3	165.7	199.9	200.1	192.6	192.6	153.5	153.5
June	192.5	192.8	165.8	166.3	200.5	200.7	194.0	194.3	153.7	153.7
July	193.6	194.3	167.1	166.8	201.3	202.0	195.4	196.5	155.5	155.2
August	194.8	195.5	167.8	167.0	202.5	203.3	196.8	198.3	156.7	156.3
September	196.0	197.2	168.5	168.6	203.7	204.5	198.2	200.0	157.7	157.5
October	197.3	198.4	169.7	169.5	205.2	205.6	199.4	201.5	158.8	158.5
November	198.6	199.5	170.8	170.3	206.8	206.8	200.5	202.8	160.0	159.6
December	199.9	200.8	171.9	171.1	208.3	208.1	201.7	204.0	161.3	160.8
January 1982	201.2	201.9	172.7	172.0	209.5	209.3	203.2	205.2	162.3	161.8
February	202.4	203.0	173.5	172.8	210.8	210.6	204.6	206.3	163.2	162.6
March	203.6	204.1	174.3	173.5	212.1	212.0	206.0	207.3	164.2	163.7
April	204.9	205.3	175.4	174.5	213.4	213.4	207.4	208.4	165.5	164.9
May	206.3	206.6	176.4	175.3	214.8	214.9	208.8	209.7	.66.8	166.3
June	207.7	207.8	177.5	176.2	216.2	216.3	210.2	211.0	168.1	167.6

Fore. = August Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	+485	+485	137.2	136.7	2875	2875	1515	1514	51.2	51.2
April	-2471	-2471	137.5	137.6	2875	2881	1511	1514	37.1	33.6
May	-2450	-2441	135.5	135.5	2870	2876	1504	1504	25.6	29.4
June	-2130	-2105	133.8	133.8	2899	2888	1513	1504	13.2	10.2
July	-1123	-1354	134.2	133.1	2909	2906	1507	1502	18.9	18.9
August	-1852	-1923	134.0	132.5	2913	2928	1498	1504	20.6	12.5
September	-1867	-1858	134.8	133.1	2925	2936	1494	1497	25.6	18.0
October	-1021	-1365	135.3	133.5	2961	2960	1499	1497	29.2	26.6
November	-1425	-1551	135.9	134.6	2991	2985	1504	1500	33.1	32.0
December	-1879	-1826	136.3	136.2	3025	2994	1511	1496	31.3	35.4
January 1982	-1625	-1795	137.3	138.1	3051	3034	1515	1506	27.6	26.4
February	-1415	-1621	137.0	137.5	3076	3059	1516	1509	22.5	25.1
March	-1589	-1558	137.8	138.3	3103	3091	1521	1516	24.0	23.1
April	-1524	-1625	139.1	139.2	3132	3122	1526	1521	24.0	19.1
May	-1327	-1593	139.6	140.0	3165	3155	1534	1527	23.1	19.7
June	-1951	-1882	140.2	140.9	3198	3176	1540	1528	25.8	21.9

Fore. = August Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	164.0	164.0	425.8	425.8	1718.4	1718.6	14.70	14.70	12.81	12.81
April	165.7	165.7	433.7	433.7	1737.7	1738.1	15.72	15.72	13.45	13.45
May	166.2	166.2	431.5	431.5	1743.0	1743.4	18.52	18.52	15.29	15.29
June	166.8	166.8	428.5	428.8	1749.3	1749.3	19.10	19.10	14.09	14.09
July	167.5	167.5	431.4	430.3	1762.5	1761.0	19.25	19.04	14.73	14.74
August	168.4	168.8	434.1	434.1	1779.5	1781.9	18.62	18.35	14.40	15.43
September	169.3	169.5	436.9	435.6	1796.7	1793.4	17.98	18.29	14.13	15.01
October	170.3	170.3	439.1	438.0	1810.5	1806.9	17.05	17.14	14.01	14.72
November	171.4	171.2	441.2	440.8	1822.0	1823.9	16.54	16.25	13.96	14.05
December	172.4	172.2	443.3	443.1	1834.6	1838.9	16.07	14.93	13.90	13.27
January 1982	173.3	173.4	446.5	445.8	1850.4	1853.8	15.42	13.26	13.52	11.96
February	174.3	174.3	448.8	447.8	1868.3	1867.6	15.25	13.05	13.26	11.48
March	175.3	175.2	451.0	450.1	1886.1	1880.9	15.08	13.21	13.00	11.41
April	176.4	176.2	453.2	453.7	1897.2	1899.8	14.91	13.93	12.94	11.78
May	177.5	177.3	455.5	457.1	1912.5	1914.0	14.76	13.07	12.71	11.29
June	178.6	178.3	457.8	460.2	1928.1	1927.0	15.12	12.96	12.90	10.96

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
March 1981	13.33	13.33	10.16	10.16	13.94	13.94	14.43	14.43	18.05	18.05
April	13.88	13.88	10.62	10.62	14.56	14.56	15.08	15.08	17.15	17.15
May	14.32	14.32	10.78	10.78	17.56	17.56	18.27	18.27	19.61	19.61
June	13.75	13.75	10.59	10.67	16.32	16.32	16.90	16.90	20.03	20.03
July	14.32	14.38	11.17	11.15	17.05	17.00	17.78	17.76	20.36	20.39
August	14.36	14.75	11.27	12.26	17.91	17.36	18.62	18.03	20.50	20.50
September	14.32	14.59	11.31	12.83	17.72	17.56	18.37	18.36	20.43	20.50
October	14.24	14.38	11.25	12.44	16.99	16.89	17.66	17.62	19.67	20.11
November	14.17	14.17	11.17	12.19	16.52	16.18	17.22	16.89	19.55	19.26
December	14.10	13.86	11.07	11.85	16.01	15.01	16.69	15.86	18.86	18.11
January 1982	13.93	13.65	10.89	11.68	15.33	13.42	16.08	14.17	18.29	16.47
February	13.89	13.11	10.83	11.14	15.11	13.15	15.85	14.05	18.06	16.25
March	13.85	12.86	10.75	10.93	14.92	13.18	15.63	13.96	18.00	16.25
April	13.73	12.95	10.61	10.90	14.86	13.76	15.48	14.52	17.86	16.43
May	13.60	12.63	10.54	10.61	14.85	13.05	15.65	13.97	17.75	16.32
June	13.65	12.47	10.58	10.47	15.21	12.92	15.95	13.74	17.75	16.09

Fore. = August Forecast
C.E. = Current Expectations

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GSU
Economic
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MONTHLY PROJECTIONS
FOR SEPTEMBER

LABOR DAY PLAYS STATISTICAL TRICKS WHILE FED MAY BE GETTING TOO TOUGH

Taken at face value, the payroll statistics for September clearly represent recessionary pressures. Payroll employment declined by 54,000 and the index of hours worked plunged nearly a full percentage point. However, the week used to survey employment conditions contained the Labor Day holiday, and as a result, fewer hours of overtime were performed during the week than normally occurs. Furthermore, the workweek in trade and services, where Labor Day disruptions are less noticeable, did not decline, and the important diffusion index showed that 58.4% of the 172 industries actually added to payrolls in September. While this problem with the survey week will distort productivity estimates for the third quarter, leading to higher estimates than probably occurred, and will also dramatically alter the leading indicators, it will have only a marginal effect upon industrial production and personal income estimates. On balance, therefore, September was probably not a recessionary month, although the employment statistics could be read to support such a contention.

The evidence from credit market performance continues to be mixed, but a decidedly recessionary tilt appears to be developing. First, short-term interest rates clearly peaked in July. Although the decline in interest rates has been relatively modest, it appears that restrictive money stock growth rather than strengthening economic activity has been responsible. By late September, M1-B was no higher than in early April. M2 has grown at a 7.5% annual rate. This wide discrepancy between the growth rates of M1-B and M2 far exceeds the differential growth anticipated by the Federal Reserve. Clearly, the dramatic growth in money market funds is responsible for this discrepancy. As some of these funds are managed by institutions and merely reflect the cash holdings of investment portfolios, the monetary qualities of M2 are subject to some speculation. In essence, the Federal Reserve may be overly restrictive at the present time. Any loosening of these restrictive reins should accentuate the downward movement of short-term interest rates.

Unfortunately, long-term interest rates have shown little inclination to respond to these changing short-term credit market conditions. While this is not unusual, short-term interest rates now are yielding less than long-term rates. Dealers can therefore finance inventories without concern for finance charges. The degree of upward slope for a normal yield curve may have been intensified by the extreme volatility of bond prices in recent months. Nevertheless, further downward movement of short-term interest rates soon should begin to generate downward movement in long-term rates as well.

In short, interest rates remain high despite a weakening economy and lessening inflationary pressures because of overly restrictive Federal Reserve activity. Seasonal factors no longer are leading to higher interest rates, so that a significant downward movement in interest rates should be apparent in a few weeks and should persist at least until February of 1982.

Quarterly GNP Profile
(Percentage Changes)

	1981-II	1981-III	1981-IV	1982-I	1982-II	1982-III
Real	-1.6	1.0	-4.7	4.2	3.9	2.4
Price	6.4	8.2	9.2	6.9	7.2	7.0
Nominal	4.7	9.2	4.0	11.3	11.4	9.6
Real Gross Private Domestic Product	-1.3	1.2	-4.4	4.1	4.0	2.1

Monthly Statistical Highlights
for September 1981

Personal income, +0.5%; personal consumption, +0.4%; savings rate, 5.3%; retail sales, unchanged; automobile sales, 8.8 million units; housing starts, -0.5%; housing permits, -2.5%; construction expenditures, -0.9%; business inventories, +0.1%; orders for durable goods, -0.5%; orders for nondefense capital goods, +1.0%; industrial production, -0.1%; CPI, +1.0%; PPI, +0.4%; consumption deflator, +0.8%; construction deflator, +0.4%; leading indicators, -2.4%; M1-B, unchanged; M2, +8.6%.

Monthly Statistical Highlights
for October 1981

Payroll employment, +21,000; index of hours worked, +0.5%; household employment, +522,000; unemployment rate, 7.7%; personal income, +1.1%; personal consumption, +0.9%; savings rate, 6.2%; retail sales, +0.8%; automobile sales, 8.5 million units; housing starts, -1.2%; housing permits, -4.5%; construction expenditures, unchanged; business inventories, +0.4%; orders for durable goods, +1.7%; orders for nondefense capital goods, +1.5%; industrial production, +0.1%; CPI, +0.8%; PPI, +0.6%; consumption deflator, +0.7%; construction deflator, +0.6%; leading indicators, +0.7%; M1-B, +2.8%; M2, +6.6%.

COMMENTARY

Employment

The Labor Day holiday clearly distorted the workweek figures for September and may also have distorted the hourly wage index. Hours worked in manufacturing almost certainly did not decline by 0.9 hours. However, the wide discrepancy between changes in employment as measured by the household data and changes in payroll employment cannot be explained merely by Labor Day problems. In the household data, estimates declined by 674,000. Most of this decline was registered in the women 20+ category, where participation rates for this group plunged from 52.4% in August to 51.8% in September. Although problems with the September seasonals cannot be completely ruled out, the teenage work force, which is most susceptible to seasonal problems, showed moderate advances on both employment and labor force. Based on this report, participation rates of all segments of the work force are trending far below the BLS estimates of participation rates in the early 1980's. The surveys are probably understating labor force and employment changes for all segments of the work force, but the evidence remains unclear on this point.

Payrolls of goods-producing industries continued to advance marginally in September, as moderate decreases in construction were offset by modest expansion in manufacturing. The strength in manufacturing is concentrated in chemicals and apparel, while most durable goods industries were little changed, with the exception of a significant decline in lumber and wood products. Retail trade payroll stalled after two months of significant gains, the finance group also showed little growth, but services expanded sharply while state and local government payrolls declined by 144,000, more than the total decline in all nonagricultural payrolls. Some of this decline reflects work stoppages by teachers, but the final decline in CETA employment is also a factor.

The hourly earnings index rose to a 9% increase over the previous year's level, but these numbers again may be distorted by the Labor Day estimates. Despite these distortions, the September employment statistics probably reflect more weakness than strength, so that we would anticipate that the wage component of personal income showed little growth in the month.

Personal Income and Outlays

Despite the sluggishness expected for wages and salaries in September, personal income is now expected to outperform the forecasted numbers by nearly $10 billion. Most of the reason for this performance is stronger employment and wage growth than had been expected in the August forecast. Sharp gains in interest income also are contributing to the rapid growth in personal income. Consumers apparently have decided to convert these increased income gains into rising consumption activity, since the personal savings rate during the third quarter is slightly below forecasted values. This is not unexpected, but it does indicate that consumers will probably spend most of the tax gains they receive in the next few months.

Consumption and Retail

Retail sales in August were surprisingly weak, growing only 0.6% following a -0.3% change in July. Most economists had expected much higher numbers because of the apparent growth in auto sales. Preliminary estimates of consumption indicate that these expectations were not incorrect. Regardless of the minor increase in estimated auto sales during August, durables spurted 8.5% in the same month. After adjustment for inflation, consumption is sharply above second quarter levels. Thus, the retail sales estimates appear to have been in error and may be revised upward sharply in the next report. Sluggish consumption is occurring in nondurables, however. Some of this weakness reflects continuing declines in gasoline purchases, but some also reflects extremely rapid consumer response to changing food prices. Indeed, food purchases now appear to be more discretionary than ever before which explains partially why meat prices have not experienced the surge that most experts anticipated earlier in the year.

Despite significant promotional activity, auto sales remain unusually sluggish. Reductions in the effective price through rebates or subsidized financing will generate car sales, but even promotional sales are no longer obtaining the same magnitude of total sales which occurred in February at the time of the previous promotion. As a result, we expect very gradual improvement in auto sales through much of 1982. Not surprisingly, the industry also is beginning to expect such an outcome and is adjusting its production schedules accordingly.

Construction

Is there a bottom for the housing industry? In August, housing starts fell by more than 100,000 units with the total decline being concentrated in single family starts. The gap between starts and permits remains unusually narrow, suggesting that some builder optimism remains, although sales figures in August show no justification for that position. In that month, previously occupied homes showed a 10% decline in sales to 2.26 million units at annual rates. New single family homes saw sales drop by 14%, and inventories rise to ten months of sales. Thus, the conditions prevailing in August would lead to further reductions in housing activity. Current interest rates have actually increased further since those building decisions were made, so that it appears unlikely that housing starts will exceed one million units in the fourth quarter of 1981. Recovery is expected to begin in 1982 as mortgage rates drop, although our estimates continue to show that mortgage rates may not fall below 15% at any time in 1982.

The trends for nonresidential construction are mixed. Public construction continues to fall sharply, but some near-term stability now seems to be likely. A combination of reduced federal support and a difficult bond market will prevent any recovery in public construction from being vigorous. Private nonresidential construction showed noticeable strength in the summer, as insurance companies began to seek buildings, rather than mortgages on those buildings, for their portfolios. Most cities now are experiencing rising vacancy rates for commercial properties. The industry is becoming concerned that shopping centers may be overbuilt. Also, the capital spending surveys suggest that further growth in private nonresidential construction will be modest. All of these factors suggest that, in the months ahead, there will be little growth after adjustment for inflation in private nonresidential construction. Nevertheless, the summer surge leads to higher estimates for private nonresidential construction than we had placed in our forecast. Expansion in private nonresidential construction still is expected to reach 10.1% in the next twelve months.

Business Activity

An interesting question to be raised at the current time is whether inventories are being accumulated or liquidated. Purchasing agents have stated for several months that inventories were under liquidation, but business inventories in July showed a surprising 1.1% advance. Moreover, commodity inflation in the three months previous to July averaged less than 4% at annual rates. This would suggest that a significant portion of the increase in business inventories in that month reflected actual additions to stocks rather than illusory changes in inventory values. Auto inventories almost certainly declined in August, but total manufacturing inventories still showed an increase of 0.3% before valuation adjustment. If, as we expect, the valuation adjustment during the third quarter will be the lowest in many years, then even the August inventory figures might reflect a slight increase. Indeed, inventories in the third quarter may be expanding at a more rapid rate than in the spring. If so, the plunge in final demand during the spring which led to unanticipated inventory gains, has not yet spawned a production correction, and the weakness that most most economists were looking forward to in the third quarter may not appear until the fourth quarter.

Orders for nondefense capital goods in August actually fell below shipments. Normally, this would suggest some weakness in shipments of capital goods in the next couple of months, and indicates that spending for capital goods may be sluggish into the early months of 1982. The major exception is in defense, where shipments continue to rise briskly and where orders hit a high of 5.8 billion in August.

If defense orders slow in September, as we expect, and the automobile shipments which are counted as part of those shipments also slow, orders for durable goods might show another modest decline in September. Excluding defense, orders now are slightly lower than they were at the beginning of this spring.

Prices

Those economists expecting another modest quarterly expansion in the GNP deflator during the summer may not have noticed the nearly 1% jump in the consumption deflator during July. Much of this increase was caused by a sharp expansion in food prices and in prices of consumer services. While auto rebates will cause moderate price changes for consumer goods in August, the deflator is expected to reaccelerate in September. This is similar to a pattern expected for the consumer price index.

Over the next year, however, expected price pressures have been reduced relative to previous expectations. The major force for this reduction is in agricultural prices, where the farmer is expected to continue to bear the brunt of the inflation fight. Accelerating meat prices are still expected, but the magnitude of those price changes no longer is expected to be significant. As a result, the consumer nondurables deflator is expected to advance only 6.8% in the next year. Price competition in automobiles and continued moderation in jewelry prices is expected to constrain the growth of consumer durables as well. That deflator is expected to expand only 5.8% in the next year. Offsetting these areas of price moderation are the more rapid than expected price changes in consumer services. The latest CPI figures show an acceleration in rents, and this is expected to be sustained because of the induced scarcity of housing units. Prices of medical services also continued to accelerate even as all other sources of inflationary pressures are moderating. Consumer services are therefore expected to show greater inflationary pressures than had been expected in the August forecast. Nevertheless, price moderation for goods will more than offset price acceleration for services, so that the GNP deflator for consumption is reduced modestly from forecasted values.

Although the consumption deflator is showing significant improvement, the CPI is expected to perform less favorably than had previously been expected. The major reason for this discrepancy is the continued rise in prices of used automobiles and the anticipated expansion in home prices. In the next twelve months, the CPI is expected to expand by 7.4%.

Finally, the collapse in construction activity has led to a significant adjustment in construction prices. The implicit construction deflator has been revised downward sharply for the first half of 1981. In the latest month, there was virtually no construction inflation. While prices of building materials cannot be expected to decline indefinitely, it appears that the implicit construction deflator will be growing only 7% in the next twelve months. This is considerably slower than the 8.9% expected in the August forecast.

Miscellaneous

The leading indicators continue to be hampered by distorting monthly changes in economic data. While the September plunge in stock prices should realistically be reflected in the indicators, the Labor Day induced shortening of the workweek probably should not. Excluding changes in hours worked, the leading indicators should probably fall 1.5% in September and another modest amount in October. Because the hours worked have been biased by Labor Day, however, the September decline will be nearly 2.5% while October probably will show a modest gain.

According to our estimates of changes in commodity inflation, the IVA has shrunk to single-digit levels late in the second quarter. Very modest valuation adjustments are expected during the summer months. If these estimates are correct, inventory investment is more substantial than most economists currently believe, and a significant inventory correction may be necessary in the fourth quarter. Of course, our estimates could be off, and if such is the case, inventory investment would be several billion dollars lower in the third quarter, possibly leading to negative changes in GNP. Then the magnitude of inventory adjustment would then be much smaller in the fourth quarter, and as result, economic weakness would be more subdued.

Financial Markets

Improvement in sensitive short-term interest rates intensified in September, but long-term interest rates continued to ignore this progress. Most of the improvement has been in federal funds, where rates in September averaged nearly 300 basis points below the July rate. Other sensitive short-term rates have responded only grudgingly, with commercial paper rates down only 30 basis points and 90 day CD's showing little change from three months ago. The case for a decline in virtually all interest rates during the next few months, however, is very strong.

First, the seasonal forces which typically derailed bond market rallies in August and September are passing from the scene. Second, a decline in short-term rates has reestablished a positive yield curve. At the very least, dealers are able to finance bond inventories with little carrying costs excluding the still considerable price risk. Third, commodity inflation continues to remain contained. Despite double-digit increases in consumer prices during the third quarter, underlying inflation appears to remain in single-digit territory. Those increases were generated by special circumstances related to the housing component of the CPI. Now that food inflation appears to be moderate well into 1982, any serious risk of commodity inflation returning to the double-digit territory is small. Fourth, at least one measure of money stock, M1-B, has shown no growth at all in the last five months. If a liquidity effect does exist in near-term monetary conditions, this would mean that short-term interest rates were higher in recent months than would have occurred if the Federal Reserve had pursued more normal monetary expansion. For this reason, a return to normal behavior by the Federal Reserve should lead to some loosening of interest rates. (This analysis is, of course, predicated upon the previous assumption that commodity inflation will continue to be restrained through much of 1982.)

Our current feeling is that a portion of the collapse in Municipal Bond prices was an abberation, and the .87 ratio between the Bond Buyer and seasoned AAA's should drop to the vicinity of .80 by the middle of 1982. We also expect that casualty insurance firms will begin to enter the market early in that year. Despite our more optimistic outlook for sensitive short-term interest rates, longer term securities are expected to continue to yield exceptionally high returns. From current levels, seasoned AAA's are only expected to improve by 150 basis points by July of 1982. Of course, this improvement coupled with the currently prevailing yields still leads to a 25% total rate of return at annual rates over that period of time. A reason for this more modest improvement in long-term rates is the anticipation that corporations will borrow heavily once long-term rates begin trending downward. I still continue to be concerned about renewed upward pressures on interest rates near the middle of 1982, when the social security adjustment and the additional 10% reduction in withholding taxes occur during the same month. Any market reaction to this shift in budgetary thrusts should be short-lived, however.

Stock Market

Our current anticipation of a sharp drop in economic activity during the fourth quarter suggests that operating profits will be under considerable downward pressure during this period. While substantial acceleration of commodity inflation is not anticipated, some weakening of the dollar from unsustainable highs earlier in the summer could cause internationally traded commodities to reverse directions in their prices. The valuation adjustment for inventories, therefore, should rise noticeably from the unusually low levels we expect during the third quarter. This suggests that the quality of corporate profits also will be declining, if only modestly. Offsetting these two decidedly negative influences upon equity values will be the anticipated improvement in long-term interest rates. While long-term interest rates appear to have peaked in late September, their fourth quarter average still is expected to be higher than the third quarter average. For this reason, our formula for equity values for the fourth quarter will be decidely lower than the 900 estimated for the third quarter, and current equity values appear to fully justify those developing events. Moreover, our estimates suggest that close conditions entering into our equity value estimates should be favorable through much of 1982, with the possible minor exception of some deteriorating quality of earnings. Sustained advances in equity values therefore appear to be justified in 1982, although the beginning of this upward movement may not be apparent until the very end of 1981.

10/7/81

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	91458	91458	108.9	108.9	98976	98976	7.3	7.3	136.7	136.7
May	91530	91564	108.9	108.9	99235	99235	7.6	7.6	137.6	137.7
June	91516	91615	108.8	108.7	98392	98392	7.3	7.3	138.2	138.4
July	91525	91880	108.6	109.4	98675	98962	7.5	7.0	139.1	139.0
August	91410	91929	108.4	109.4	98623	98944	7.6	7.2	140.0	140.6
September	91385	91875	108.3	108.4	98661	98270	7.7	7.5	140.8	141.0
October	91436	91896	108.4	109.0	98763	98792	7.8	7.7	141.8	141.8
November	91529	99943	108.6	109.0	98906	99026	7.9	7.8	142.8	142.8
December	91664	92067	108.9	109.1	99091	99291	7.9	7.8	143.9	143.9
January 1982	91773	92185	109.1	109.3	99123	99452	7.8	7.8	144.9	144.5
February	91891	92315	109.3	109.6	99283	99627	7.9	7.8	145.8	145.6
March	91973	92426	109.5	109.8	99407	99788	7.9	7.8	146.9	146.5
April	92127	92614	109.6	110.0	99557	100055	8.0	7.7	147.9	147.6
May	92315	92689	109.8	110.0	99782	100101	7.9	7.8	149.0	148.7
June	92491	92815	110.1	110.2	99971	100264	7.8	7.8	150.2	150.0
July	92565	93021	110.3	110.5	100026	100520	7.8	7.7	151.4	151.0

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	2.354	2.354	1.460	1.460	104.2	106.0	1.976	1.976	1.871	1.870
May	2.368	2.367	1.467	1.467	110.3	109.4	1.985	1.985	1.875	1.876
June	2.382	2.384	1.472	1.474	103.4	104.4	1.995	1.996	1.892	1.892
July	2.412	2.419	1.480	1.485	111.3	114.1	2.022	2.027	1.911	1.912
August	2.428	2.446	1.486	1.501	109.6	108.0	2.035	2.048	1.926	1.940
September	2.449	2.459	1.493	1.505	111.1	108.3	2.053	2.057	1.942	1.949
October	2.471	2.485	1.514	1.523	124.2	129.1	2.083	2.096	1.959	1.967
November	2.487	2.504	1.523	1.533	119.4	127.1	2.096	2.111	1.977	1.984
December	2.502	2.523	1.532	1.545	113.7	122.3	2.108	2.126	1.995	2.004
January 1982	2.517	2.536	1.546	1.554	106.4	112.8	2.119	2.135	2.013	2.022
February	2.537	2.557	1.560	1.568	112.0	112.4	2.135	2.151	2.023	2.039
March	2.556	2.576	1.574	1.580	119.2	111.1	2.150	2.165	2.031	2.054
April	2.575	2.597	1.586	1.593	113.5	109.9	2.165	2.182	2.052	2.072
May	2.596	2.615	1.599	1.604	108.2	104.2	2.181	2.195	2.073	2.091
June	2.617	2.639	1.613	1.619	102.6	111.0	2.197	2.213	2.095	2.102
July	2.645	2.673	1.625	1.633	143.5	162.3	2.252	2.285	2.109	2.123

Fore. = August Forecast
C.E. = Current Expectations

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	1822.2	1820.0	228.8	229.4	732.8	733.9	860.6	856.6	956.0	955.1
May	1826.0	1825.7	226.5	226.4	728.4	731.5	871.1	867.9	953.8	953.4
June	1842.8	1841.6	224.9	226.1	736.8	740.6	881.1	874.9	957.3	956.9
July	1859.4	1861.8	229.5	228.6	741.5	746.4	888.4	886.8	960.4	957.7
August	1877.7	1888.5	235.1	248.1	746.1	747.4	896.5	893.1	963.9	967.0
September	1893.3	1896.4	237.1	241.6	751.6	752.4	904.6	902.4	966.0	963.1
October	1912.6	1914.0	240.2	242.7	761.1	760.1	911.3	911.2	969.4	965.7
November	1928.3	1930.4	240.9	243.4	768.5	767.5	918.9	919.5	970.9	967.4
December	1939.6	1949.7	242.2	246.4	771.1	775.3	926.3	928.0	970.3	971.5
January 1982	1957.5	1967.7	245.1	250.3	778.3	781.2	934.1	936.2	972.9	975.5
February	1971.5	1983.6	247.5	252.8	780.5	786.3	943.5	944.5	974.1	977.9
March	1984.3	1998.3	249.3	254.3	782.1	790.9	952.9	953.1	974.6	979.2
April	2003.7	2015.9	252.5	257.7	789.4	796.8	961.8	961.4	977.9	981.9
May	2021.2	2033.9	255.4	260.1	795.3	803.5	970.5	970.3	979.7	985.1
June	2038.7	2044.4	258.3	263.3	801.2	802.9	979.2	978.2	981.6	985.0
July	2056.4	2064.5	261.3	265.7	806.8	812.1	988.3	986.7	984.2	988.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	85.86	85.86	11.78	11.78	8.0	8.0	59.50	59.50	14.57	14.57
May	85.31	85.50	11.80	11.75	7.9	7.9	58.76	58.97	14.76	14.79
June	86.37	87.38	11.95	11.93	7.5	7.5	59.46	59.85	14.96	15.60
July	88.27	87.13	12.04	11.69	8.2	8.2	59.95	59.56	16.28	15.88
August	88.74	87.69	12.06	11.66	8.4	10.4	60.32	59.86	16.36	16.17
September	89.04	87.74	11.96	11.72	8.4	8.8	60.77	60.26	16.31	15.76
October	89.93	88.48	12.05	11.79	8.6	8.5	61.54	60.88	16.34	15.81
November	90.83	89.27	12.26	11.75	8.7	8.8	62.13	61.47	16.44	16.05
December	91.10	90.46	12.39	11.83	8.7	9.0	62.35	62.10	16.36	16.53
January 1982	92.09	91.48	12.43	12.02	8.8	9.1	62.93	62.57	16.73	16.89
February	92.58	92.28	12.38	12.09	8.9	9.3	63.10	62.98	17.10	17.21
March	93.03	92.92	12.33	12.16	9.0	9.3	63.23	63.34	17.47	17.42
April	94.15	93.89	12.50	12.22	9.1	9.4	63.82	63.82	17.83	17.85
May	94.88	94.70	12.63	12.33	9.2	9.5	64.30	64.35	17.95	18.02
June	95.61	95.02	12.76	12.42	9.3	9.7	64.78	64.31	18.07	18.29
July	96.42	96.02	12.84	12.56	9.4	9.7	65.23	65.04	18.35	18.42

Fore. = August Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	1.322	1.322	0.900	0.897	1.186	1.186	248.9	248.9	162.8	166.0
May	1.159	1.158	0.767	0.764	1.182	1.167	239.7	239.7	156.2	159.3
June	1.032	1.039	0.671	0.688	0.976	0.963	236.2	234.0	153.7	155.3
July	1.015	1.049	0.653	0.707	0.923	0.913	231.8	234.8	149.1	155.6
August	1.024	0.937	0.674	0.591	0.923	0.863	228.7	231.0	145.9	153.1
September	1.081	0.932	0.737	0.572	0.963	0.841	227.8	229.0	144.5	151.1
October	1.138	0.921	0.774	0.556	1.007	0.803	229.1	229.1	144.3	150.3
November	1.193	0.955	0.815	0.581	1.051	0.819	232.0	227.5	145.0	148.5
December	1.263	1.008	0.871	0.614	1.111	0.847	236.5	229.1	146.6	148.7
January 1982	1.352	1.066	0.948	0.662	1.193	0.892	244.8	232.8	150.8	150.3
February	1.333	1.130	0.947	0.711	1.143	0.962	244.0	236.3	149.5	151.9
March	1.392	1.185	0.973	0.753	1.208	0.985	250.9	240.5	152.8	153.5
April	1.380	1.233	0.955	0.792	1.200	1.063	255.1	244.1	154.1	154.7
May	1.399	1.304	0.962	0.843	1.227	1.113	259.0	247.9	155.3	155.8
June	1.463	1.339	1.014	0.885	1.297	1.143	262.5	252.8	156.2	157.6
July	1.535	1.405	1.061	0.943	1.349	1.206	266.7	257.7	157.5	159.5

HOUSING CONTINUED

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	94.2	94.2	56.4	56.4	98.3	98.3
May	94.0	94.0	51.5	51.5	94.3	94.2
June	93.8	95.8	51.3	52.2	91.1	86.0
July	94.0	98.0	51.1	51.4	86.7	85.4
August	94.5	98.1	51.0	49.1	83.2	83.8
September	94.9	99.0	51.4	49.0	81.5	81.0
October	95.5	99.6	51.6	49.3	82.0	80.2
November	96.1	100.1	51.3	49.8	84.6	77.6
December	96.8	100.7	51.4	50.2	88.3	78.2
January 1982	98.9	102.6	52.3	50.5	93.6	79.7
February	98.0	103.0	52.0	51.0	94.0	82.3
March	100.2	103.6	53.1	51.6	97.6	85.3
April	101.3	104.4	53.3	52.0	100.5	87.7
May	102.4	105.5	53.6	52.5	103.0	89.9
June	103.4	106.8	53.7	52.9	105.4	93.1
July	104.2	107.9	54.4	53.6	108.1	96.2

Fore. = August Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durables Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	267.6	267.5	87.18	87.18	24.72	24.72	23.81	23.81
May	269.3	269.3	88.16	88.16	23.87	23.87	24.04	24.04
June	270.7	269.7	87.46	88.30	22.74	23.23	24.09	24.60
July	271.8	271.9	89.93	89.44	23.62	24.23	24.21	23.93
August	273.0	272.6	91.27	86.33	24.15	24.20	24.35	24.24
September	274.2	273.0	93.46	85.94	24.61	24.43	24.48	24.35
October	275.5	273.6	95.21	87.43	24.52	24.79	24.63	24.52
November	276.6	274.9	96.05	87.40	24.95	24.56	24.84	24.50
December	277.5	276.0	96.54	89.63	25.42	24.92	25.01	24.73
January 1982	278.9	277.4	95.95	92.46	25.11	25.27	25.19	24.91
February	279.6	278.5	96.92	91.67	25.32	25.21	25.33	25.14
March	280.8	279.7	98.23	94.45	25.93	25.56	25.52	25.33
April	281.6	280.7	100.21	96.15	26.25	25.71	25.76	25.42
May	283.0	281.6	99.56	98.29	26.15	26.15	26.15	25.67
June	284.1	283.0	100.52	100.43	26.20	26.43	25.93	25.94
July	285.3	283.8	102.45	102.25	26.69	26.75	26.17	26.13

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	488.2	487.1	3.96	3.96	152.2	151.9	80.0	79.8
May	490.3	490.3	3.94	3.94	152.8	152.7	80.1	80.0
June	493.0	494.2	4.04	4.11	152.7	152.9	79.6	79.7
July	495.8	499.1	4.08	4.23	152.3	153.4	79.5	79.8
August	497.4	501.4	4.15	4.39	150.5	152.8	77.6	79.3
September	499.5	502.1	4.23	4.45	148.3	152.3	76.8	78.9
October	501.0	504.0	4.29	4.53	148.9	152.6	77.0	78.9
November	503.2	506.1	4.35	4.46	149.8	152.5	77.3	78.6
December	505.9	508.9	4.41	4.52	150.5	152.7	77.6	78.5
January 1982	508.1	510.3	4.47	4.63	151.1	153.0	77.8	78.5
February	510.2	512.6	4.58	4.71	151.9	153.4	78.0	78.6
March	512.5	514.0	4.69	4.78	152.7	153.5	78.2	78.5
April	514.6	517.9	4.73	4.85	153.5	153.5	78.4	78.3
May	517.2	518.2	4.23	4.92	154.5	153.3	78.7	78.0
June	519.9	520.3	4.92	5.03	155.5	153.5	79.0	77.9
July	522.2	523.0	5.03	5.16	155.9	153.9	79.1	78.0

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C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	266.8	266.8	267.7	268.5	301.6	303.5	143	143	1.9024	1.9015
May	269.0	269.0	268.9	268.9	304.1	304.1	142	142	1.9087	1.9109
June	271.3	271.3	269.9	269.9	304.7	304.7	141	142	1.9162	1.9194
July	273.5	274.4	270.7	271.3	305.5	306.0	141	141	1.9308	1.9369
August	275.7	276.5	271.8	271.2	306.7	307.0	143	137	1.9450	1.9462
September	277.6	279.0	273.2	271.7	307.9	308.2	145	134	1.9580	1.9620
October	279.0	281.2	275.5	273.8	311.2	311.3	147	132	1.9749	1.9785
November	280.3	283.4	276.3	275.9	313.6	313.2	148	135	1.9885	1.9923
December	281.6	285.0	277.8	277.7	316.0	315.5	149	138	2.0016	2.0039
January 1982	283.3	286.3	279.6	279.2	318.3	317.6	150	141	2.0144	2.0138
February	285.1	287.5	281.6	281.1	320.2	319.7	153	141	2.0294	2.0244
March	286.9	289.0	283.8	283.6	322.1	322.0	156	144	2.0399	2.0364
April	288.7	290.4	285.7	285.8	324.0	324.2	157	146	2.0529	2.0486
May	290.5	291.8	287.8	287.9	326.6	326.8	159	149	2.0631	2.0606
June	292.2	293.0	289.7	290.0	329.1	329.5	160	150	2.0760	2.0714
July	294.0	294.6	291.7	292.2	331.0	331.3	162	152	2.0896	2.0835

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	190.6	190.6	164.2	164.3	200.2	200.3	190.9	190.8	152.9	149.9
May	191.4	191.5	165.3	165.7	199.9	200.1	192.6	192.3	153.5	150.5
June	192.5	192.5	165.8	166.3	200.5	200.8	194.0	193.6	153.7	150.7
July	193.6	194.4	167.1	167.5	201.3	202.9	195.4	195.6	155.5	150.9
August	194.8	195.3	167.8	168.2	202.5	203.7	196.8	197.3	156.7	150.9
September	196.0	196.9	168.5	169.0	203.7	204.7	198.2	199.4	157.7	151.5
October	197.3	198.2	169.7	169.9	205.2	205.8	199.4	200.9	158.8	152.4
November	198.6	199.6	170.8	171.0	206.8	206.9	200.5	202.5	160.0	153.2
December	199.9	200.7	171.9	171.6	208.3	208.0	201.7	203.9	161.3	154.1
January 1982	201.2	201.7	172.7	172.4	209.5	209.1	203.2	205.0	162.3	154.9
February	202.4	202.8	173.5	173.2	210.8	210.3	204.6	206.2	163.2	155.6
March	203.6	204.1	174.3	174.0	212.1	211.6	206.0	207.5	164.2	156.7
April	204.9	205.3	175.4	174.9	213.4	213.0	207.4	208.8	165.5	157.8
May	206.3	206.5	176.4	175.8	214.8	214.2	208.8	210.0	166.8	159.1
June	207.7	207.5	177.5	176.5	216.2	215.3	210.2	211.3	168.1	160.4
July	208.9	208.8	178.5	177.2	217.5	216.7	211.7	212.6	169.3	161.5

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C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	165.7	165.7	433.7	433.7	1737.7	1738.1	15.72	15.72	13.45	13.45
May	166.2	166.2	431.5	431.5	1743.0	1743.4	18.52	18.52	15.29	15.29
June	166.8	166.9	428.5	428.8	1749.3	1749.3	19.10	19.10	14.09	14.09
July	167.5	167.3	431.4	430.1	1762.5	1760.2	19.25	19.04	14.73	14.74
August	168.4	168.9	434.1	432.8	1779.5	1779.0	18.62	17.82	14.40	15.52
September	169.3	168.8	436.9	432.9	1796.7	1791.3	17.98	16.23	14.13	14.76
October	170.3	169.5	439.1	433.9	1810.5	1800.8	17.05	15.26	14.01	13.94
November	171.4	170.4	441.2	437.1	1822.0	1819.5	16.54	14.65	13.96	12.67
December	172.4	171.6	443.3	441.0	1834.6	1839.4	16.07	14.10	13.90	12.17
January 1982	173.3	172.5	446.5	443.7	1850.4	1854.3	15.42	13.46	13.52	11.65
February	174.3	173.2	448.8	445.1	1868.3	1863.9	15.25	12.72	13.26	10.96
March	175.3	174.7	451.0	448.6	1886.1	1882.3	15.08	12.24	13.00	10.43
April	176.4	176.0	453.2	452.1	1897.2	1900.8	14.91	12.73	12.94	10.72
May	177.5	177.1	455.5	455.1	1912.5	1918.2	14.76	12.95	12.71	11.01
June	178.6	178.3	457.8	458.6	1928.1	1937.7	15.12	13.26	12.90	10.89
July	179.6	179.4	460.9	461.1	1944.5	1953.1	15.65	12.72	13.26	10.72

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	13.88	13.88	10.62	10.62	14.56	14.56	15.08	15.08	17.15	17.15
May	14.32	14.32	10.78	10.78	17.56	17.56	18.27	18.27	19.61	19.61
June	13.75	13.75	10.59	10.67	16.32	16.32	16.90	16.90	20.03	20.03
July	14.32	14.38	11.17	11.14	17.05	17.00	17.78	17.76	20.36	20.39
August	14.36	14.89	11.27	12.26	17.91	17.23	18.62	17.96	20.50	20.50
September	14.32	15.36	11.31	13.01	17.72	16.08	18.37	16.84	20.43	20.07
October	14.24	15.31	11.25	12.83	16.99	15.19	17.66	15.93	19.67	19.09
November	14.17	14.97	11.17	12.50	16.52	14.86	17.22	15.51	19.55	18.46
December	14.10	14.73	11.07	12.23	16.01	14.27	16.69	15.02	18.86	17.75
January 1982	13.93	14.42	10.89	11.77	15.33	13.61	16.08	14.46	18.29	17.22
February	13.89	14.01	10.83	11.35	15.11	12.85	15.85	13.68	18.06	16.38
March	13.85	13.52	10.75	10.92	14.92	12.42	15.63	13.14	18.00	15.75
April	13.73	13.85	10.61	11.12	14.86	12.69	15.48	13.36	17.86	15.75
May	13.60	13.92	10.54	11.14	14.85	12.93	15.65	13.65	17.75	15.93
June	13.65	14.05	10.58	11.24	15.21	13.22	15.95	14.01	17.75	16.27
July	13.74	13.86	10.62	11.05	15.78	12.78	16.29	13.71	18.05	16.50

Fore. = August Forecast
C.E. = Current Expectations

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1981	-2471	-2471	137.5	137.4	2875	2881	1511	1515	37.1	41.2
May	-2450	-2441	135.5	135.2	2870	2876	1504	1505	25.6	25.4
June	-2130	-2105	133.8	133.9	2899	2902	1513	1512	13.2	8.9
July	-1123	-542	134.2	134.5	2909	2940	1507	1518	18.9	7.1
August	-1852	-4085	134.0	133.8	2913	2961	1498	1521	20.6	7.9
September	-1867	-2614	134.8	130.6	2925	2949	1494	1503	25.6	9.5
October	-1021	-1626	135.3	131.5	2961	2955	1499	1493	29.2	13.5
November	-1425	-2143	135.9	131.5	2991	2976	1504	1494	33.1	20.2
December	-1879	-2262	136.3	132.6	3025	3006	1511	1500	31.3	26.3
January 1982	-1625	-2076	137.3	134.1	3051	3037	1515	1508	27.6	20.2
February	-1415	-2195	137.0	135.6	3076	3063	1516	1513	22.5	20.4
March	-1589	-2242	137.8	136.6	3103	3081	1521	1513	24.0	21.2
April	-1524	-2320	139.1	137.8	3132	3120	1526	1523	24.0	21.4
May	-1327	-2116	139.6	138.5	3165	3142	1534	1525	23.1	23.3
June	-1951	-2286	140.2	139.7	3198	3170	1540	1530	25.8	24.0
July	-1753	-2145	141.3	139.5	3226	3192	1544	1532	27.8	30.2

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C.E. = Current Expectations